NZ-Iran trade will pick up after 'hiccup'

by John Draper

A BIG hiccup — that's the expected effect Ayatollah Khomeini's Islamic Republic will have on New Zealand trade with Iran.

But in the short term, the impact will be drastic. Potential meat sales valued at around $45 million have almost certainly been lost, and wool and dairy products worth another $30 million are in jeopardy.

The outlook, though, is brightening. Despite the stringent demands the Islamic regime is imposing, Iran's rapidly-growing population still has to eat. And New Zealand can expect to remain among its suppliers.

Reports coming from Teheran indicate that the country is rapidly returning to normal after a four month general strike against the Shah's rule taking Iran to the brink of civil war.

A huge backlog in the Gulf ports is clearing, and already the first shipment of Iranian oil since the new regime has taken over has left for Japan — at 50 per cent above the old OPEC price.

Wool merchants are receiving encouraging signs from their Iranian agents, and sales might soon be renewed, once banking and shipping services start operating again.

Pronouncements by the Ayatollah suggesting that it is against Allah's will to eat frozen meat are now thought to be a misquote. Afghanistan and Turkey — even with support from Australia — would not be able to provide more than a fraction of the 120,000 tonnes of fresh meat needed.

New Zealand Meat Exporters' Council chairman Ron Cushen dismisses suggestions that New Zealand might export live lambs to Iran.

"The unions are not likely to allow it, and logistically it is not feasible," he said.

"We are already satisfying the specifications of 30 different markets, and I am sure we can meet those demanded by Iran once we know what they are."

In six years, Iran has developed into New Zealand's second-largest customer for lamb. And while the Shah was in control, growth was confidently predicted at 10 per cent a year.

A few Muslim butchers are employed by freezing companies to make up small export orders for countries demanding killing in the Islamic style — slitting the jugular vein, while a prayer is quickly recited three times.

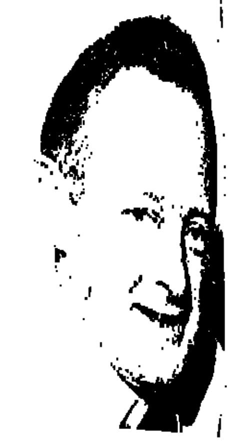
Up to 200 Muslim slaughtermen might be needed to fulfil the potential Iranian demand. But if the Ayatollah interpretation of Islamic law does ban frozen meat, New Zealand is unlikely to send it chilled.

Iran's temporary demise is not a disaster for meat exporters. Orders were not expected before the second quarter of 1979. Demand for lamb is strengthening, with the United Kingdom market picking up after a sluggish start, as well as interest from Greece and Italy. Two new markets are also in prospect, Tunisia and Mexico, with an order for 3000 tonnes likely to be signed very soon.

Russia's 45,000 tonne-mutton purchase, along with strong interest from Japan and South Korea, has left the freezing works calling for more sheep to kill, while American demand for beef is ensuring good prices.

The Dairy Board is also optimistic about the Iranian market. It regards the present problems as no more than the "normal ups and downs on the marketplace".

AYATOLLAH KHOMEINI . . . misquoted?



RON CUSHEN . . . dismisses live-lamb exports.

But the board's $20 million sales target for 1979 is now no more than wishful thinking.

Last year, sales for milk solids, butter and cheese reached $15 million. The board expects demand to remain strong, no matter what government is in power in Teheran.

While Gulf ports were clogged by ships waiting for striking dock workers to return, alternative routes through Turkey were already being investigated.

Wool exports worth $20 million destined for the machine carpet industry around Teheran are by no means certain, despite encouraging reports by local agents.

Well-informed sources, say they doubt if a quarter of Teheran factories closed for four months by the general strike will ever reopen again.

The key to Iran's future as a New Zealand export market is not so much the stringencies of the Ayatollah's Government but the revival of banking and shipping services.

Banking virtually collapsed leaving more than $... letters of credit stranded within the system. When banks reopen, a strong ... foreign exchange is expected but the country's reserves ... strong, standing at around ... billion.

New Zealand manufacturers may be the hardest hit by the Shah's overthrow. ... companies at least ... construction and engineering field were on the verge of winning big orders before unrest forced negotiations to be cancelled.

The Ayatollah's regime is widely expected to impose a period of austerity on the Iranian people, but oil exports will remain the country's lifeblood.

US market demands hard-sell approach

by John Draper

CORNER cutting manufacturers trying to break into the United States market on the cheap are missing out on exports worth millions.

New Zealand products can compete but need the sophisticated American hard-sell to get them on the market, according to Paul Mariani who is delivering a nationwide seminar series to businessmen.

More products have failed to gain a foothold on the American market because manufacturers have tried to bypass middlemen, agents and distributors who can win a big order with a telephone call, than for any other reason, Mariani says.

High fashion clothing and costume jewellery producers fighting for a niche in the very competitive market have failed miserably, he said.

One New Zealand company tried to sell horse blankets on the cheap and still has 4000 in a Denver warehouse unsold after seven years. The company redesigned the blanket, found an American distributor and is now taking big orders for an acceptable product, he said.

Buyers from large stores are not interested where the goods come from, but only in what price it comes through their delivery bay.

For the consumer, "Made in New Zealand", is a big selling point and adds a romantic touch, Mariani said.

Mariani's main job is to promote San Jose Foreign Trade Zone 18 which gives overseas companies a tax and quota free haven within the United States. Products can be assembled, packaged and even manufactured, and therefore qualify for the "Made in USA" stamp.

For the New Zealand ... Board the zone may ... become the back door ... quotas on beef are down.

Beef turned into hamburger patties inside the ... becomes a US made product free from quotas and subject only to local taxes. ... meat importers are planning ... cool store within the zone.

Beer bottling is another likely project as Steinlager sales put the froth on Lion Breweries' exports profits.

A five million gallon ... farm for edible liquid ... planned in the zone as well ... the cool store and ... square metres of warehouse and factory space.

The zone, which is in only its third year, is already handling merchandise worth ... million a year and offers overseas manufacturers overall savings over direct exporting ranging from ... to 12 per cent — "leaving ... money for promotion".

The zone's management offers services to would-be clients covering initial market surveys through to advice on transport and documentation.

Several New Zealand companies are already commissioning market surveys for products including furniture and specialised electronic lifting equipment.

Mariani advises New Zealand manufacturers not to be put off by the high labour costs in San Jose which are among the highest in America. The extra productivity more than compensates for the higher wages, he says.

40 cents

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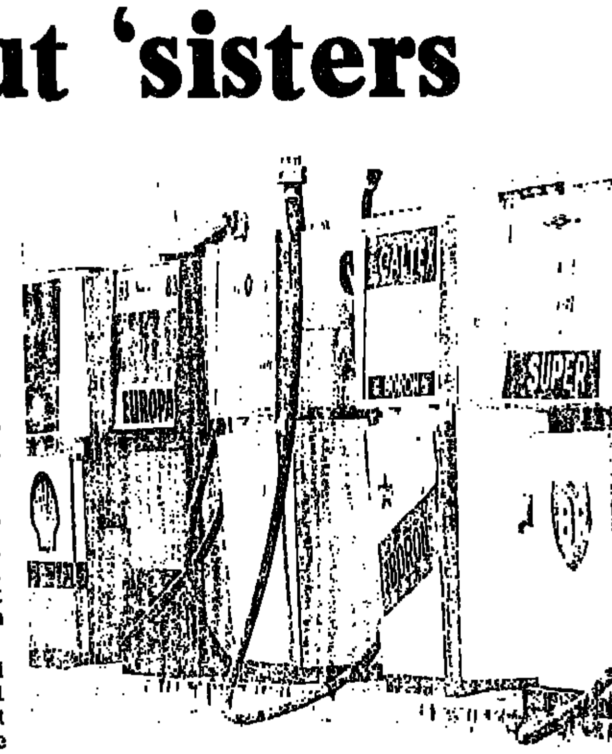
National Business Review

BP stocks high but 'sisters may run dry'



by John Draper

JUST after Easter, a petrol station somewhere will run dry. But it won't be BP's — an irony that is unlikely to be appreciated by the motorist who finds the sold-out sign first.

By Easter Monday, petrol stocks at port depots are expected to be 11 days, well below the minimum needed to guarantee supplies to every service station.

Total stocks would have dropped below the desired 60-day average around Easter anyway, following the close-down at Marsden Point for maintenance during February.

But the cancellation of two tanker loads of naphtha — the important ingredient in petrol — has induced the crisis.

The Government refused to pay the high spot price on one load offered by BP, and Shell was unable to supply at a lower price.

BP's motoring customers are likely to be assured of petrol supplies in the immediate future.

Nominally Shell, Caltex, BP and Mobil retain ownership of the crude oil they supply to Marsden Point for refining.

BP was fortunate in getting a tanker into the refinery as striking Muslim oil workers shut off supplies in Iran. But it is BP's dependence on Iranian supplies providing up to 40 per cent of New Zealand's needs that has brought on the present shortage.

Beyond Easter petrol stocks around the country are expected to climb. But the crisis will not be over.

BP has little surplus oil it can supply and the Government is refusing to pay expensive spot prices.

But in London, BP International has already decided that associated companies, including BP New Zealand, will get priority next year.

Surplus oil is normally sold on yearly contracts but they will not be renewed. This will release around 60 million tonnes of crude.

Until then BP New Zealand will try to maintain supplies by specially negotiated purchases similar to the 50,000 tonnes bought from Kuwait at slightly less than $16 a barrel and nearly $2 above the OPEC price.

But BP Australia is reported to have negotiated contracts with Kuwait, Indonesia and Malaysia to make up the 5 per cent shortage it caused across the Tasman.

Australia's 5 per cent equals half the quantity BP was supplying New Zealand.

A company spokesman in Wellington said New Zealand could also probably be catered for, if it was prepared to pay the higher price.

Meanwhile the Government has directed the Electricity Department to burn Kapuni gas in four power stations to boost condensate production by 300,000 barrels in the next six months.

Condensate made up 14 per cent of the refinery's feedstock last year but the increase will add only another 1½ per cent to the cost of spilling South Island hydro lakes.

Roxburgh and Manapouri have already been spilled but the Electricity Department says that would have happened anyway.

The Cook Strait cable was fully loaded at the time of the spills caused by high storage levels for this time of year, the first time for four years.

But the risk of future spills has increased with lakes being maintained at high levels.

Marsden Point has been working at up to 60 per cent above design capacity and is still supplying only two-thirds of New Zealand's petrol needs.

Plans to extend the refinery, a small and simple one, have been around since 1968 when the cost was estimated at $64 million.

Now with the Government and the oil companies still haggling over financing the expansion the cost is more than $330 million.

The expansion will allow the refinery to supply all the country's petrol needs as well as a range of other products, such as avgas, which could be the next fuel to be in short supply.

Supplies for Air New Zealand and other airlines are now imported from Australia.

Maui gas is due on stream in May, but apart from the Huntley power station there are no other users until the Government approves the construction of a pipeline from the power station to Auckland.

The cost is expected to be at least $20 million and if approval is given soon it could be built within two years.

Another pipeline under consideration is for oil from Marsden Point to Auckland. Again, the plans have been around for several years. Former Trade and Industry Minister Warren Freer claims they were on the verge of being approved when the party was ousted from office in 1975.

Energy planners are carefully studying ways of turning Maui gas into petrol at a cost estimated to be between $1000 and $2000 million.

OPEC's special meeting on Monday this week should have helped make the decision clearer.

INSIDE

Truckies in revolt

by John Draper

TRUCK owners and their national association seem set for a head-on collision over the 20 per cent increase in the road user charge.

Angry owners in Wellington and parts of Auckland are threatening to take their vehicles off the road from April 1 rather than pay the increase which put $44 million into the Government's coffers last year.

But the Road Transport Association says its members are lucky the increase, the maximum the law allows, was not 40 per cent.

It calculates the Government will need $62 million from the heavy transport industry in the next financial year to finance the Roads Board, $9 million more than the $53 million it will get from road user charges.

The association argues it is of little concern to the truck owner as the charge can be passed straight on to the customer.

The 20 per cent increase will add 1 per cent to city haulage rates and an estimated 1.4 per cent to rural rates.

But many truck owners are not happy. Ken Hammond, of Upper Hutt, is leading the protest in the Wellington region.

Already many customers thinking freight rates will also go up 20 per cent are buying their own light vehicles, he says. And hauliers are switching to lighter vehicles to avoid the tax.

"In dollar terms, 20 per cent is not very much to us but fuel will be going up this year, insurance as a result of new legislation raising liability from $40 to $500 a package will be up and increasing depot fees will mean a lot more than one per cent on rates."

Loads were already scarce and rising rates would make them even harder to come by, he said.

The change to a mileage-tonnage related from a fuel tax has raised carriers costs by a third, Hammond estimates.

The Road Transport Association, which admits its communications with its 4000 members are not always perfect, is urging a Government working party to modifiy the administration of the charges.

Hamstrung surgeon brandishes the scalpel

by Colin James


POLITICS

GEORGE Gair is one of Cabinet's most articulate ministers. Since he is a former PR man, that is not surprising.

He is also good at projecting compassion. The abortion debates of the past few years have given him the image of a liberal with a social conscience.

He has too, some reputation as an able administrator.

These three factors made him a logical candidate for the health and social welfare portfolios.

(I shall pass over a possible fourth factor: that with tough times ahead, big-spending departments in need of pruning are not a bad place to bury a potential leadership rival's specially if you doubt that his administrative ability matches his reputation.)

Gair is energetic. Everywhere he has left behind an impression of activity, sometimes frenetic activity.

We can expect the same in his new field. The activity is beginning to surface as signposted earlier this month when he delivered a series of backgrounding speeches.

Basically they said: "The internal deficit is too high. Health and social welfare account for about a third of Government spending. If the deficit is to be cut, the cost of health and social welfare must be cut".

Most people took this to mean "health and social welfare spending must be cut". Visions of poised axes were conjured up and seemed justified by the fate of charitable private hospitals being squeezed between rising costs and insufficient State subsidies.

Gair had tried to head off such criticism. He put the accent on efficiency.

Having announced that hospital boards would get next year as much as they would normally have got, minus 1 per cent, he urged them to find the 1 per cent by improving efficiency rather than cutting services.

Vast increases in "financial inputs" had not been matched by corresponding improvements in New Zealanders' "health status".

"If we were to conduct a careful examination of our operations to ensure they are working in an efficient and businesslike manner, I believe we might find that we could even expand our services within the current levels of expenditure", he told the boards.

"I cannot conceive that anything we do — and I hasten to include myself — cannot be done at least 1 per cent better".


GEORGE GAIR . . . calls for 1 per cent efficiency rise

His optimism is to be marvelled at. It was, after all, his Cabinet pruning committee which aimed at increased efficiency by imposing the "sinking lid" on department's staff levels.

The theory has not been matched with practice. In many cases, either the standard of service has dropped, or "temporary" staff have been taken on to do the work of those pushed over the edge of the pot by the sinking lid.

There is no compelling reason to believe the hospital boards, which have not been noted for their management skills, will do any better. More likely, waiting lists will get longer.

In some cases, no doubt, the boards will simply overspend their allocations, as some have done this year. They are not directly accountable to the tax payer for the money they spend and if they choose to give higher priority to discharging their health service duties than to meeting budgetary restrictions, it is hard to fault them on moral grounds.

In any case, as Gair himself implicitly pointed out, they are limited in their room to manoeuvre by the fact that wages and salaries take up 75 per cent of their spending.

The usual cry from hospitals now is that they are understaffed already. One can take from this that the hospitals probably do not consider a 1 per cent staffing cut really feasible.

But Gair has laid it on the line to them. If savings are not made, something will have to give.

"We are fast approaching the stage where, if the burden becomes any greater", he told the Takapuna and Devonport Rotary Clubs, "it will place quite unacceptable strains on the country's financial health and therefore the community's overall wellbeing — indeed, the same community the welfare spending was designed to help".

There is wide agreement on that. It is such sentiments that have given rise to a wave of anti-tax feeling in the United States.

There is even some agreement from the other side of the political fence. Roger Douglas thinks social spending is unsustainable at its present growth rate.

But Gair is trapped by party commitments. He cannot touch national superannuation, which, at an estimated $933 million net out of $1500 million net distributed in benefits this year, offers the largest single target to a potential axeman.

National superannuation is costing — on Gair's own estimates — $242 million more this year than the former old age benefit and universal superannuation would have cost if still in operation.

That $242 million has to come from somewhere. It may well be that its extraction from family budgets is helping keep huge numbers of children "poor" by New Zealand standards.

That is, they are below what has been dubbed the "pensioner datum line", a generally agreed measure of a minimum acceptable standard of living.

Economist Brian Easton found in 1975 that a higher percentage of children — 25 per cent, or 250,000 — were below this line than people over 60 (20 per cent, or 75,000 people). Some 20 per cent of the children's parents — 170,000 people — were also below the line.

If anything, since national superannuation came in, the picture has got worse.

Still, there is surely something to be said for the Government's intransigence on national superannuation. No one wants to see the bread taken from the mouths of those old people who depend on the State.

So Gair has lighted on health for his savings, with the probable consequence that public hospital services will get slightly worse. This is tough on the less-well-off, who cannot afford private hospitals.

But is Gair as limited in scope for pruning as he seems to believe?

He belongs to a party that says it favours private enterprise and competition. Given that starting point, it is at least arguable that competition in health care might improve its efficiency.

What about competitive tendering for hospital management? Or State-dunded vouchers redeemable at any hospital, public or private? Why not try for accountability to consumers and not to taxpayers?

No doubt a torrent of arguments can be raised — perhaps by some readers — against such an approach. I have doubts of my own.

But liberal George Gair believes in adequate health care for all. He also recognises that shortage of resources is threatening that. The time may be coming for more innovative thinking than "1 per cent off the top".

Is Gair with the nice smile, the fashionable social conscience, the private enterprise background capable of it? Or will Bob Tizard remain the most innovative health minister of the decade?

Import licensing puts the brakes on cycle sales

by Belinda Gillespie

WANT to buy a bike to beat the petrol ban? You may have to wait till Christmas.

The 10-speed tourer, whose popularity has made the conventional cruiser almost obsolete, is in short supply because local manufacturers can't keep up with the demand, and licences to import Japanese bikes are meagre.

John Egan, of the Department of Trade and Industry, argues that the events in Iran which precipitated the current demand were unforeseeable.

The department is carrying out a survey with a view to granting interim licences to import bikes in the period of "shortfall".

Before the oil crisis, there had been a satisfactory situation where local manufacturers — A G Healing and Co Ltd and Morrison Industries Ltd — met the demand, or most of it. Thus there had been no recent increase in the number of import licences granted.

If the survey confirms that there is a significant shortfall the findings will be the basis for further action by the department.

But Egan said he was unwilling to "jump the gun" and disclose exactly what the department would do or how long it would take.

Ninety per cent of bikes are made locally, Egan said. The other 10 per cent are imported under licence.

He claimed he couldn't give details of actual numbers of bikes imported without disclosing information confidential to local industry.

Scientists rate the cyclist as number one for energy efficiency among moving creatures and machines.

The bicycle — which makes small demand on material or energy resources, contributes little to pollution, makes a positive contribution to health and causes little death or injury — has been called "the most benevolent of machines".

The anomalies of policies which discourage the public from using petrol, yet readily allow the purchase of expensive, gas-guzzling, energy inefficient imported cars, and inhibit purchase of Japanese bicycles, are obvious.

Cycle retailers and wholesalers say the demand for bikes has been growing steadily over the last two years, and has only been accelerated by the petrol crisis.

They doubt that a survey is necessary to establish demand.

But it is difficult to gauge the size of the demand accurately when most suppliers are out of stock. The same potential purchasers shopping around can give an illusion of a greater lack than might exist.

Paul Wallace, of Blue Bird Cycles, in Petone, says demand for the 10-speed tourer exceeds supply by almost four times.

He claims the two local manufacturers are over-protected by import licensing.

More competition from imported bikes might step up the supply and make it less erratic, he argues. But quality and price of the New Zealand-made bikes is good.

Licensing protects the local manufacturers on the standard 22-inch frame size. But the cycling craze has meant increasing requests for sizes outside that.

Healings and Morrisons can't cope with the needs of the market for a multiplicity of sizes, retailers say, and licences in these areas particularly should be relaxed.

Buying a woman's touring cycle, for example, is "out of the question". Yet the trend to cycling includes an ever-increasing proportion of adults — women among them.

The bureaucrats who grant licences considered frame size unimportant, one retailer claimed. "But you can't just put the seat up. The right balance is all-important," he said.

Another said the situation was hopeless, specially for North Island retailers.

Healings, his main supplier, manufactures in Christchurch, and the bikes already in short supply are further subject to ferry delays.

Graham Turney, secretary of the New Zealand Automotive and Cycle Association, put the wholesaler's point of view.

Local manufacturers hadn't caught up with the demand for the new, sophisticated 10-speed bike which had grown in the last four years, particularly for supplying a full range of sizes and styles, he said. Both manufacturers were concentrating on, say, one model each, but there was considerable demand outside that, and importers would like more licences for different styles and sizes.

Turney said that some years ago — when Morrisons had been given sanction to make bikes — wholesalers had surrendered their licences on the understanding locally made bikes would be redistributed through them. They had been left with minimal licences for what Morrisons didn't make, and these were never enough.

The problems were largely the economic difficulties of supplying a small market. Neither manufacturer had the production capacity to meet normal market variations, and New Zealand wasn't big enough to sustain an industry sufficiently sophisticated to satisfy all segments.

The problem had been aggravated recently.

Licences for parts are also in short supply. Two years ago, Mervyn Jones (of Jones Bros Ltd in Lower Hutt) exchanged his bicycle licences for licences to import ski goggles and cycle parts. He is now trying to swap them back again.

The rising popularity of the 10-speed bike — 3500 were counted in use in a recent Massey University survey — has brought a "terrific" demand for parts.

Some increases in licences have been granted, but these haven't kept up with inflation.

Trade and Industry was unaware of the demand for parts, Jones said. The new type of bike had many more "bits and pieces" which wore out relatively quickly.

The locally made bike used many imported components too, and with about 400 cycle dealers in the country requiring a basic stock of parts, licences were out of gear with the situation.

Auckland-based A G Healing and Co Ltd is both importer and a manufacturer of bicycles.

General manager H Christensen said he didn't see a need for more licences, even on an interim basis.

Back in 1973, Warren Freer (then Minister of Trade and Industry), had allowed a "flood of bikes" into the country, which brought considerable problems, he said.

The high profit margin on cheap Taiwanese and Korean bikes made every importer keen to get in on the act, but "junk" bikes with odd parts couldn't be serviced.

Christensen admitted the current shortage, and said April would probably be difficult, but he anticipated that his company would have a surplus of its own product by the end of May.

Even if extra licences were granted now, it would be at least four months before any imports arrived. And by then, the demand might have disappeared.

Christensen urged "patience" and suggested that now would be an inappropriate time for allowing extra imports.

He denied there is much demand outside the standard range.

Healings had increased production this financial year by 100 per cent and exceeded its planned budget by 50 per cent. The big demand, he suggested, would drop when the wet weather started.

But Mervyn Jones said that in the past, demand for bikes had virtually ceased after the return to school in February. A number of retailers anticipated the demand continuing throughout the year.

EDITORIAL

EARLY this month, the Prime Minister declared that the Government proposed to change its overseas investment policies because "to maintain, or indeed improve, our position in the world, we require more overseas investment in those fields which are technologically complex". We were not about to sell our country, he emphasised, but we were about to buy "for a reasonable return" the technological expertise which was essential for New Zealand to properly develop "the resources which we have in such abundance".

Depending on the extent to which the Government plans to surrender New Zealand sovereignty over these resources, of course, the announcement was to be welcomed. Appropriate development projects, using overseas investment and technological know-how, is an attractive alternative to overseas borrowing and can make an important contribution to providing jobs and exportable products.

But just what the Government had in mind became more problematical when Deputy Prime Minister Talboys told the Auckland Chamber of Commerce the Government had formed no new foreign investment policy. Nor did it plan to change existing regulations or new legislation, he said. Rather, it was pointing out investment opportunities.

That statement coincided with the visit by West German businessmen interested in assessing our economic and industrial potential. But any offer of Maui gas and cheap electricity at a time when power charges have been hiked some 50 per cent while water slops over the top of our dams and the Government ploughs ahead with the Clutha project, was bound to spark controversy — specially while details remain secret. This climate of mystery demands protests to the Government, rather than to the visitors, and shouts of "sieg heil" were boorishly inappropriate.

According to one of the visitors, placards warning against more Comalco deals were lost on them because they did not know what Comalco meant. The protesters no doubt were drawing attention to a previous secret deal, but maybe they did the West Germans a good turn. They focused on Government's dubious record of negotiating a contract, then breaking the resultant bargain when events showed the foreign investor had got the better of the deal.

Besides learning of inducements to Comalco, the visitors may have noted that a joint venture involving West German investment had been jeopardised in Bluff (just across the harbour from where Comalco sited its smelter).

A demarcation dispute had erupted when watersiders insisted they should unload fishing boats. But the success of the joint venture hinges on costs being kept down to allow the fish to be sold competitively overseas. For that reason, the company had secured an agreement with the watersiders to allow fishermen and processors to do the unloading. That bargain had been broken.

But there are bargains — and bargains. Thus the New Zealand businessmen who belong to Rotary presumably are taking some satisfaction from the fact their organisation invoked a contract entered into by a West German schoolgirl. She breached her undertaking to avoid romantic attachments while studying here — a breach viewed so seriously that Rotary brought the Government into the affair. And an earnest Immigration Under-secretary Malcolm personally ordered the lass from the country (without allowing her to state her case, without showing interest in determining the truth of conflicting claims about her behaviour, and with the threat that anyone advising or assisting her to "overstay" her cancelled visa would also be breaking the law).

The Germans must be wondering about a country where the top two Ministers publicly express differing views about the nature of our investment policy, and where a certain levity pertains to business deals but affairs of the heart invite state intervention. Pity. We probably need the West Germans more than they need us.

Bob Edlin

AS Export Year draws to a close, the Trade Promotion Council is inviting applications for this year's export awards.

The award scheme began in 1966 to recognise companies and individuals who made valuable contributions to the national economy — and just look at our balance of payments figures over recent years to see that any contribution is valuable — through *export achievements.*

For those who enjoy that sort of thing, the awards are presented personally by a Cabinet Minister, and there are the spin-off benefits of publicity being generated for a winning company's products and activities, both here and abroad. Oh, and there's a wall plaque, plus entitlement to use the Export Award symbol on a winning company's products, company stationery and promotional and publicity mateiral. And an Export Award is a pre-requisite for the Governor-General's Export Award.

Publicity from the Trade Promotion Council tells us that more than 100 companies "have shown ingenuity and resourcefulness in winning overseas sales against tough competition," to win awards.

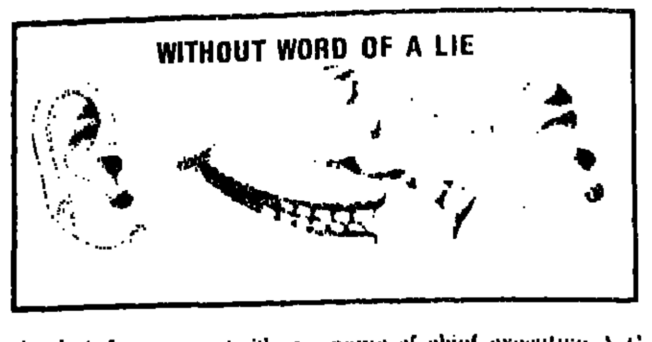
"Many have done so through innovative marketing and packaging techniques, by adapting their products to specific export markets, or by developing new products for exports."

Some firms have won the award for selling technical skills and expertise to other nations, and organisations which make significant contributions to the expansion of New Zealand exports in fields — *such as banking, finance,* transport, market research and packaging — also qualify.

So if you reckon your company can demonstrate outstanding export achievement during a period of at least three years — well, be in.

Applications close April 30.

For our part, we rather fancy the chances of the Government itself as an award winner — for the mass export of skilled New Zealanders over *the last few years* (with a resultant and welcome easing of demand for houses as a bonus, as the PM told us last week).



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FROM a seminar on "Alcohol problems in Industry":

"Why did he die?" one woman asked the other as they watched the coffin being lowered into the ground.

"Drink," replied her friend.

"But why didn't he join Alcoholics Anonymous?"

"Oh — he wasn't that bad."

•

THE New Zealand Travel Association seems to have resigned itself to living with the ill-advised travel tax, which readers of this paper know is almost certainly costing the country more than the $13.7 million it raised for the Government in the year to March 31, 1978.

The tax is costing New Zealand thousands of dollars a week, reckoned in terms of lost business and lost commissions on onward fares that would normally have been sold on behalf of other airlines. And travel agents have seen their returns falling as the tendency grows for New Zealanders *embarking on overseas trips to* buy one-way travel only. The clear implication is that many are avoiding the tax by buying their return and other travel overseas, using their credit cards, overseas funds to which they have access, or spending a portion of the travel funds they can claim automatically through the ordinary banking system.

But a recent New Zealand National Travel Association newsletter released under the name of chief executive A C Stanford, while recognising that the tax "has proved totally ineffective in dampening down the demand for overseas travel", goes on:

"However, the industry must be realistic in appreciating that any tax, no matter whether it is effective in its primary purpose or not, once received into the Consolidated Fund is extremely difficult to have removed."

The newsletter suggests that apart from Draconian measures which would be unaccepted in New Zealand, "the only effective way to change the balance between the travel payments and travel receipts is through devaluation, but this is hardly likely to be decided on solely on the basis of the balance of travel".

•

CLICHES aside, hope really does spring eternal. There is no better example of this than the rash of hopeful talk about breakthroughs, particularly with the rationalisation of industry, at the upcoming and annual round of NAFTA ministerial meetings.

This has been all heard before and has about as much *substance as politicians'* promises. The New Zealand Australia Free Trade Agreement, signed in 1965, has considerably boosted our trade across the Tasman and gone some way to evening up what was a very marked trade imbalance in Australia's favour. But NAFTA has always been more important to us than to the Australians, and our enthusiasm has always been far greater.

In fact, in recent years the Australians have m... about as clear as they're ... with clothing, whiteware ... now a rival pulp and pa... industry — what they ... about NAFTA.

We're afraid that, ... increasingly protective ... there are disturbing signs ... our relationship with Austr... is paralleling our EEC ... that we're cling... desperately by our fingers ... to what we've got, with ... best hope the gradual r... than swift attrition of ... position.

•

DEER are certainly ... the idea of building up ... herd appeals, the cost ... give you reason to recon... Apart from the cos... acquiring and fencing ... land, the asking and rec... price for deer on the ... fast reaching ... proportions. The deliv... price, if it's your turn in ... queue for what was ... considered a pest, is ... around the $2000 mark.

The principal reason ... term prospects for ve... exports aside — is the ... spiral in antler velvet ... that more than match... giddy increases.

Deer farmers are ... getting about $225 a ... antler velvet destined ... insatiable Asian ... remedy market. On avera... mature stag produces ... four to five pounds of ... per annum. Returns, ... agree, to make anyo... over his pocket calcul...

•

DOUBTS emerging ab... savings — supp... averaging about 16 per ... *from weekend petrol* ... bans and voluntary re... are unlikely to ... Government until ... irrefutable evidence ... figures are inflated.

The oil companies ... dubious of the accuracy ... survey system — 100 ... 4000 service stations ... used by the Motor ... Association — and ... own figures on actual ... probably available ... will show a less imp...

BROCKIE'S VIEW

Editor: Bob Edlin. Editorial: Ralph Green (Production Editor), Rae Mazengarb, Colin James, Belinda Gillespie, John Draper.

Advertising Manager: Paul A. C. S. Loh. (P.O. Box 9344, Telephones 738-876, 859-019, Wellington.)

Auckland office: Editorial, advertising and distribution inquiries: Warren Berryman. Telephones 689-695, ...

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performance on the part of New Zealand motorists.

A United States Energy Department study just released shows that the banning of weekend petrol sales saves little petrol and results in longer service station queues the rest of the week — the queueing phenomenon tending to increase petrol consumption.

Undoubtedly, petrol rationing is the sure and *certain* way of reducing petrol consumption — either because of supply shortages or because high prices will further dislocate the economy. It is also likely to be the move the Government makes last, if and when everything else fails.

National will not have forgotten that it was the Fraser administration's enthusiasm for rationing — petrol and other kinds — after World War II that contributed significantly to the restrictive, austerity image that kept Labour off the Treasury benches for most of the next three decades.

•

THE Reserve Bank is still pondering on how much it should let the trading banks increase charges to customers.

Cheque clearing charges have remained at three cents for the last 12 years but the cost has soared to 40 cents. The banks, believe it or not, have been deliberately subsidising their customers but now they want to recover a higher percentage.

The Reserve Bank has been studying their case since late last year but still has not reached a decision. If the banks had wanted to maintain the old ratio of cost to subsidy, approval would have speedily been given, but as a pricing authority the Reserve Bank is finding it difficult to see why the customer should bear a higher proportion of the cost.

•

IT'S an ill wind and all that . . . only in this case it was low cloud at Wellington which stranded some Auckland manufacturers at the airport in their home town last week. They fell to moaning about the Government and its handling of the economy.

Another VIP in their midst could not help agreeing with them, he being a senior Labour Party MP. Result: a $250 cheque for party coffers on the spot.

•

WE know that oil is a precious commodity which must not be wasted, and we know that big spillages have nasty pollutant side-effects. But we don't share the Harbours Association's profound faith in the legislator being able to save us from spillage disasters.

According to a recent account in The Press, the association will urge the Government to introduce early regulations aimed at "preventing large oil spills in New Zealand". Presumably it envisages the bureaucrats in the Ministry of Transport producing the appropriate regulations and then . . . Shazzam! No more spillages.

Among future projects, no doubt, will be work on regulations to throw back the seas between Picton and Wellington to facilitate road transportation across the strait when the ferries are out.

•

WEAPONS were being infiltrated into a male ward at Oakley Hospital. So what should be done to protect staff, patients and the public?

Well, the Auckland Hospital Board opted to tighten security. And so it introduced a metal detector to screen people entering the security ward where, according to superintendent Savage, "we have the same security problems as prisons, borstals and even to an extent the airlines. We have intercepted knives and other weapons being smuggled in before, and the metal detector was designed to cut down this traffic".

But whoa, there . . . the PSA has come to the rescue of those who take umbrage at being given the once-over.

"We think it is very bad for visitors to have to be frisked like common criminals each time they visit the ward," said an association spokesman at the hospital.

We haven't had cause to visit the hospital of late, so cannot confirm that the electronic rub-down makes us feel like criminals — but we're only too happy to subject ourselves to the treatment when indulging in the occasional bit of international air travel, on the grounds we don't really want to share our airliner with some crazed — and armed — hijacker.

A different rationale obviously is being applied by the PSA, and the device has been taken out of service while negotiations with the hospital board take place.

•

ONE of those big Ministerial LTDs purred into Blair Street the other day, raising the immediate thought that maybe one of Her Majesty's Government's Cabinet Ministers might be dropping in at No. 15 to take the editor to the cleaners.

Not so . . . the chauffeur had already been to the cleaners, and was probably headed back for Parliament, if the pile of drycleaning in the back was any clue.

•

Minister of Energy figures show that the private motorist is saving at least 80 per cent of the oil needed to meet the Government's fuel saving target.

The Government has set the target for overall fuel oil savings at 7 per cent of current demand, and last week, Energy Minister Bill Birch commented that the more than 16 per cent petrol saving made by the private motorist translated into "nearly 6 per cent saving of all fuel oil".

So if the motorist is doing so well with voluntary measures who else needs to carry on saving?

For that matter, what evidence is there that anyone else is doing any real savings at all.

Certainly the Automobile Association is not delirious about the prospect of the motorists doing all the country's work in saving fuel.

AA General Secretary Bob Lithgow said that Birch's statement on the motorist saving 6 per cent "would seem to indicate that the motorist is doing more than his fair share".

Lithgow said it was time information was disclosed from industrial and transport sectors showing how, and to what extent they were meeting their targets.

This matter was to be raised in last week's meeting of the Government's fuel watchdog — the Demand Restraint Advisory Committee.

Birch denies motorists are carrying an unfair burden, and if the motorist wanted to avoid the actual introduction of carless days — voluntary or otherwise — then the motorist would have to maintain and even increase the amount of voluntary savings achieved.

He also questions the accuracy of the service stations' survey which Government used to chart the success of its petrol conservation measures.

Birch said the only real measure of conservation was the off take in fuel as measured by the oil companies, a point he said also applied to users of other fuel like diesel, jet fuel, and aviation gasoline.

Strangely, these figures are not available for public consumption and therefore further fuel suspicions that something is cooking behind the scenes.

Birch said the Government's policy of hitting the motorist first was deliberate because that sector used 40 per cent of total oil imports in petrol consumption. He denied that the motorist was being hit because no measurement could be made of savings made in other areas.

Industry and transport sectors already have lower targets than the private motorist for fuel saving, but industry, in particular, would continue to be spared for what he said were "obvious reasons"; presumably the productivity and employment reasons spelt out in NBR last week. Birch said plainly, that if the motorist fell behind, then carless days would be on.

With the supply situation also being questioned (see other story Page 1), there will be mounting pressure for a full disclosure of our fuel situation.

Subsidised farmers want less Government

Economics Correspondent

THE Wall Street Journal said New Zealand is the world's most efficient farm. "Three million people (45,000 of them farmers) produce butter, cheese, meat and wool worth nearly $2500 million. They ship it halfway round the world and are still capable of selling it for less than competitors can charge in their own backyards."

The problem is, protection and inflation have meant that farmers do not get an acceptable return for running this efficient farm. Lately farm incomes have been dropping and there has been little growth in their output since the late 1960s.

Federated Farmers' researcher Brett Tawse recently published a paper suggesting that farmers would benefit from a restructured New Zealand economy achieved through a freer market with less Government intervention.

There is nothing original about Tawse's arguments. And writers like Ian McLean (The Future of New Zealand Agriculture, Fourth Estate and the New Zealand Planning Council, October 1978) have stated them better. Tawse's article is of interest because Federated Farmers is circulating it to all provincial districts in the hope that the paper gets as wide an audience as possible.

Tawse reflects the established farming view about how the New Zealand economy should be restructured.

In the year ended September 1978, agricultural produce provided 76 per cent of our total export receipts. Given the key role of the agricultural sector in supplying the major portion of our export returns, it is important that farmers are properly rewarded for continuing to bring foreign exchange into the country.

Unfortunately, all exporters (manufacturers as well as farmers) are receiving returns based on world prices and these are generally growing slowly for our products. With inflation still high in New Zealand, exporters' costs are rising more rapidly.

THE ECONOMY

As the table shows, the farmers' share of total national income has declined steadily during the last 20 years. In 1978, farmers earned approximately 5 per cent of national income while providing 76 per cent of our total export receipts.

And even though the proportion of export receipts coming from manufactured goods has increased substantially in the last few years, manufacturers' share of national income has remained fairly static.

Meanwhile, the share of national income going to wage and salary earners is increasing. As their share increases, there is a tendency for the country to become more reliant on imports. Imports provide the raw materials to ensure employment in the manufacturing and service sectors. And as the level of salary and wage income grows, there may be an increase in the demand for imported consumer goods.

BRETT TAWSE...pushes farmers' view of world

Export-led growth in the economy would have more of a chance if the profits and investment of the export sector could be improved.

As Tawse says: "Unless there is some reasonable return (income) going to those people who actually provide the capital to produce the goods (for export), then it seems unlikely that there will be sufficient incentive to ensure foreign exchange is earned."

What steps should be taken to ensure that exporters get a reasonable return? Here Tawse repeats some now familiar messages.

Tawse voices the recommendations of the Planning Council for a less regulated economy. He believes that with fewer restrictions there would be greater opportunity for initiative and risk with enterprises then reacting according to the associated reward or loss. Competition for all inputs, including capital and labour, would intensify so that efficiency would increase and correspondingly, the rewards.

He repeats one of the messages of the recent OECD report on New Zealand to lift protection. This could mean lower costs for exporters. "With the entry of overseas competitors, local manufacturers, wholesalers and retailers would no longer be able to survive in a cost-plus environment because the overseas competitors would under-cut them. This would lead to greater efficiency through employers, knowing that they could not simply pass additional costs on, being forced to give more emphasis to productivity in wage negotiations.

"The consumer would benefit because competitive world prices would rule and quality would be improved. The agricultural sector would benefit because the freezing companies would have to be more efficient — if one particular works were not efficient, then farmers would not sell their stock through those works."

Apparently (although Tawse does not specifically say so), by lifting restrictions and encouraging efficiency, the New Zealand economy will begin the process of restructuring.

Tawse's definition of restructuring is slightly different from the one usually stated by economists. To him: "Restructuring involves changing the allocation of resources to different sectors, preferably so that additional resources go to productive areas such as agriculture, as opposed to servicing areas such as health and social welfare services."

Economists do not appear to have an exact meaning for the term "restructuring," but the general idea is that resources should be allocated from less efficient areas of the economy to the more efficient areas. Health and social welfare are not necessarily inefficient because they provide services. They may provide those services quite efficiently.

And although farmers produce a product, not all of them do so efficiently.

Is Tawse blinkered by the interest group he represents? Does he really want to restructure so that the whole economy becomes efficient or is he only interested in improving the welfare of the entire farming sector?

If so, he doesn't really want more competition. It is highly likely that some farms (hopefully the inefficient ones) will fail if the market is freed up. And as Tawse points out, some manufactures exporters will also fail, especially if they are now depending on import controls and cost-plus pricing to support inefficient production for the domestic market.

1

SHARE OF FARMING INCOME* IN NATIONAL INCOME AT MARKET PRICES

Period	Share %
1961-1965 (average)	10.5
1966-1970 (average)	8.0
1971-1975 (average)	7.9
1976	6.4
1977	7.1
1978	4.7
1979	5.2
1980	3.9

*Farming Income includes surpluses of producer boards and changes in balances of primary produce stabilisation accounts. Reprinted from Quarterly Predictions, NZIER, December 1978.

One underlying theme in Tawse's article is that the Government costs are too great for the economy. "The pressure being placed on Government to provide facilities, services and benefits for one sector or another is more than our economy can provide and yet these demands are still made."

He complains that "in servicing Government expenditure in 1979 (excluding supplementary expenditures) it is estimated that 8.1 per cent ($517.4 million) of total Government expenditure will be required for administration purposes. This is a considerable amount of money, somewhat more than an estimate of the value of all the subsidies and taxation allowances being used by farmers".

And yet this "servicing" expense is for 3 million people. Subsidies and tax allowances to farmers benefit only 45,000.

Without substantial increases in Government spending this year, farming output (and incomes) might not reach such a high level. Subsidies for farming are likely to be between $300 million and $500 million this year, (that's between $6000 and $11,000 per farmer). And the Rural Bank was advanced $163 million to loan farmers at low interest rates.

Subsidies not only add to Government expenditure, but they can also interfere with the free operation of the market. If the prices of New Zealand agricultural products were adjusted to reflect the cost of subsidies, we might not be able to remain competitive. If farmers did not benefit from subsidies, their standard of living would be lower and they might produce less at existing prices.

In choosing to subsidise farmers, the Government has used one means of allocating resources in the direction of our chief exporters. There is no certainty that if the economy was less regulated that resources would automatically go to farmers just because they are exporters. This depends on the nature of our overseas markets.

NBR BUSINESS WEE

Huge off market transfers need regulation

By Peter V O'Brien

THE Stock Exchange Association needs a new rule to clear up an unsatisfactory practice which is developing in the shares of listed companies.

Substantial parcels of shares, sometimes transferring effective control of companies, are taking place off market, with no necessity to report the transactions to the Exchange. When a broker handles such a deal (or any share transfer) he reports the sale. A company need do so under the rules only when the transfer is material to the overall business, and would be likely to have an effect on the share price.

But other companies are buying and selling share parcels, and not reporting them.

The Broadlands sale of a 35 per cent stake in NZ Pastoral Holdings Ltd, was an example. The regular activities of Brierley Investments constitute another.

There was no compulsion on Broadlands to report that it sold Pastoral Holdings shares if that sale was irrelevant to the overall state and structure of the finance house's business. (Due to the delicate relationships involved, commonsense would suggest that you state the fact immediately, but that is a separate question.)

The announcement that Ceramco Ltd was bidding for Tappenden Industries Ltd included the information that the former group had already acquired the Brierley Investments' shareholding in Tappenden. Again there was no compulsion on anyone to report that sale to the Exchange at the time it occurred, unless it affected their total business. In the Brierley case the company has so many interests that lopping off one investment has little effect on the total structure.

Ceramco's position is rather different, because the company intended to bid for Tappenden. A payment of $1.5 million is not a massive sum for a group of Ceramco's size, although there is a stronger case for suggesting that the company would have been prudent to advise the Exchange at the actual time the transaction took place.

But "commonsense" (Broadlands case) and "prudence" (Ceramco and Brierley) are insufficient to deal with this problem. They are subjective matters, which will be judged differently, or ignored, depending on who makes the assessment.

The Stock Exchange Association would assist its programme of letting everyone know who owns what by introducing a new rule to cover these situations.

The rule would state, that whenever a listed company sold more than 10 per cent of another listed company to a third party (whether listed or not), the sale would have to be reported to the Stock Exchange Association.

When a listed company bought more than 10 per cent of another listed company from a third party (whether listed or not), it would report the sale immediately.

A third case causes problems. It arises when an off-market transaction takes place between individuals or companies, none of whom are subject to the Association's rules. It is impossible to enforce rules against people who are not subject to them. The solution would be a provision in that far away new companies act, but that is looking for answers sometime near the year 2000, unless the Securities Commission can get to work on the problem.

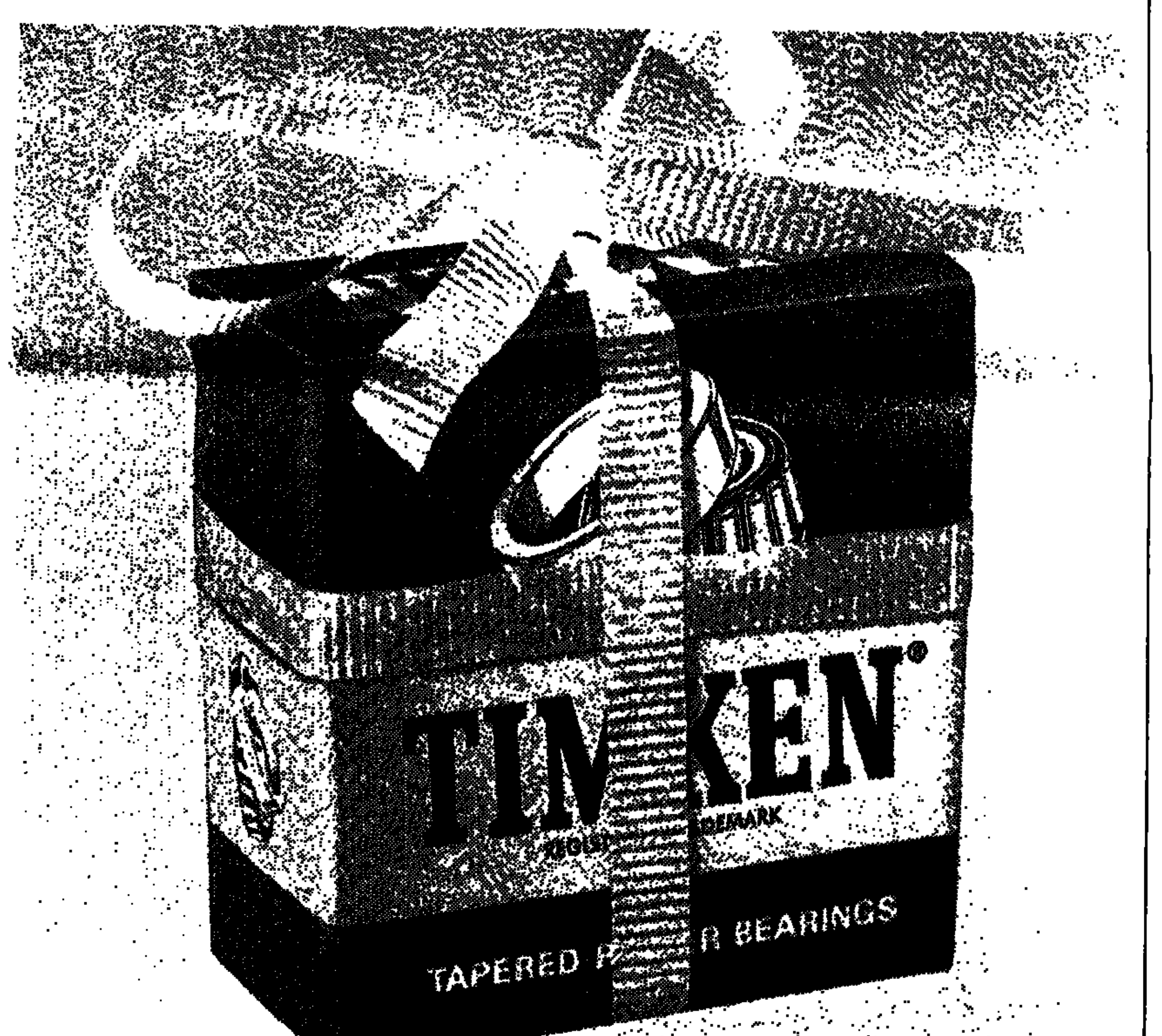
The only practical solution for the Stock Exchange Association, admittedly not perfect, would be a [illegible] ting the responsibility [illegible] listed company whose [illegible] have changed hands.

When the company [illegible] share transfers involving [illegible] than 10 per cent [illegible] shareholding into the [illegible] one person or company would be bound to [illegible] information to the [illegible] the Association. [illegible] practical problem [illegible] buyer is carefully [illegible] his purchases under [illegible] names to avoid suspicion [illegible] common Brierley [illegible] but without changes [illegible] porate law it is impossible [illegible] cover every contingency.

Changes to the rules [illegible] lines suggested here [illegible] help to clear up a [illegible] which is affecting an [illegible] and informed market [illegible] upset the plans of big [illegible] particularly those [illegible] moving into the [illegible] positions.

Rather than being [illegible] thing" through affecting [illegible] latter, the changes [illegible] would be a "good [illegible] because the rest [illegible] shareholders would [illegible] information on which [illegible] their judgment on the [illegible] their holdings.

The present lack [illegible] this issue (and it is [illegible] of regulation for [illegible] sake) affects that [illegible] and therefore [illegible] market short of [illegible]



Analysing annual accounts

by Peter V O'Brien

THE Wellington Gas Co is another group which omits from its annual report the detail required by the Companies Act in relation to directors' reports.

This matter was referred to last week when looking at Gear Meat Co. Coincidentally, Wellington Gas happened to be on the list for review this week.

In the Wellington Gas case this practice is traditional, whereas Gear has recently altered its method of reporting. The point might be minor, but surely all listed companies should at least follow the hardly onerous requirements of the Act.

Apart from that curiosity, the report is of a good standard, particularly for a company with a capital of only $892,000 and total book value assets worth $5.5 million.

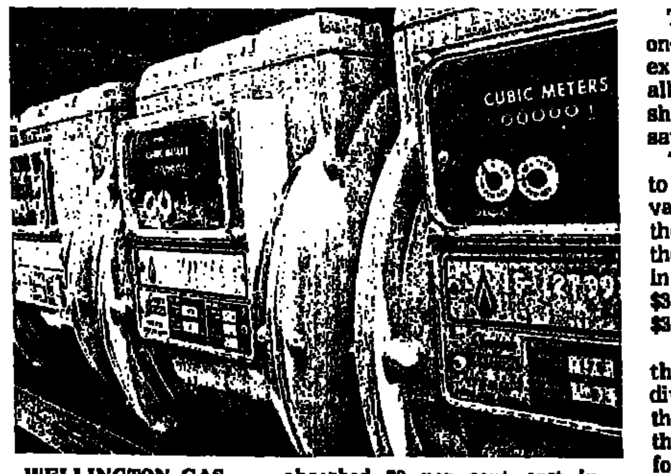
The profit and loss account illustrates a problem in dealing with utility companies. Wellington Gas produces sales figures and information on the cost of sales which is a welcome level of disclosure.

Last year the company sold $4,186,865 worth of gas, compared with $4,065,224 in 1977, an increase of 3 per cent. But the cost of gas purchased went up 12.65 per cent, totalling $1,907,080, compared with $1,692,854 in the previous year.

When Chairman Ian Reid was questioned about the apparent discrepancy at the annual meeting last week, he said the company had decided not to pass on to consumers the full amount of the Natural Gas Corporation's price rise last year. The annual report referred to the point saying: "The decision was made by the company to absorb 28 per cent of the increased cost of natural gas plus $121,000 of increased working costs. Our tariffs have remained unchanged since that decision despite further cost increases since 1977."

Companies would improve their reporting in such cases if their report included the volume sales of gas, or other products, which can be affected by similar decisions, in addition to sales etc in dollar values.

A gas company has problems in this area, because there is an item known as "unaccounted for gas", but some indication of volume sales would assist. ("Unaccounted for gas" is lost in the reticulation process, apparently for reasons such as old plant and equipment.)



WELLINGTON GAS . . . absorbed 28 per cent cost increase of natural gas.

The company's balance sheet is straightforward, as is expected in a utility.

A substantial decline in the level of short term investments which Wellington Gas usually has on hand is a feature this year. The report does not say where the money went, but part of it would now be invested in Napier and Hastings Gas shares.

The group maintains its solid asset backing, with a 1978 figure of $3.66, compared with $3.23 in the previous year. But that amount needs adjustment to reach the true figure. Land was last valued in 1974, and there has probably been another increment since then.

A sum of $1,388,338 is invested in "distribution systems and equipment", an item which may be "worth" its book value, but is possibly less. It is certainly needed to operate a gas company.

The group is in the process of restructuring itself, through a new holding company, Welgas Holdings Ltd. There will be a "takeover" of Wellington Gas on the basis of 11 Welgas Holdings shares for every 10 Wellington Gas shares.

The method is effectively a one for ten bonus issue to existing shareholders, because all the assets, and all the shareholders, remain the same.

The company might decide to have another look at asset values after the takeover. If the values remain unchanged, the asset backing of the shares in Welgas Holdings will be $3.32 as against the present $3.66.

Directors expect to maintain the present 12 per cent dividend in the new capital. On the basis of 1978 earnings, there would be a cover of 3.61 for the payout, compared with 4 in 1978.

The high dividend cover prompted a shareholder at the annual meeting to ask why the directors did not increase the dividend. Due to the devilish cunning of Chairman Reid the shareholder was unaware that the company was to be reorganised and have a bonus. Reid gave his address in two parts, leaving the restructuring until general business, thus finishing the meeting on a bull note.

With a cover of 3.61, and dividends paid from capital profits, there seems scope for further shareholder benefits in future.

Exchange rates

As at March 22, 1979 $1NZ is worth:

+Australia	.9384
Britain	.5148
Canada	1.2233
+Fiji	.8711
Japan	215.63
West Germany	1.9422
USA	1.0480
Austria	14.25
Belgium	30.69
China	1.6409
Denmark	5.4201
France	4.4714
Greece	37.82
Hong Kong	5.1197
India	8.5190
Italy	876.47
Malaysia	215.63
Netherlands	2.0953
New Caledonia and Tahiti	81.32
Norway	5.3107
Pakistan	10.27
Papua-New Guinea	On application
Portugal	50.12
Singapore	2.2679
South Africa	.8791
Spain	71.75
Sri Lanka	On application
Sweden	4.5600
Switzerland	1.7558
Western Samoa	.7524

+As at March 21, 1979

Selling rates supplied by CBA Bank.

Key indicators

		Current Period	Previous Year	Per Cent Change
Consumers Price Index -all groups base Dec 1977 — 1000	Dec 78	1000	1101	+10.1
Building Permits Issued	Nov 78	$107.4m	$102.1m	+5.00
	Nov 78 yr	$1056.6m	$1182.1m	—11.00
Official Overseas Reserves	Jan 79	$798.4m	$593.0m	+35.00
Registered Unemployed — incl those on special work schemes	2 Mar 79	50,561	31,689	+60.00
NZUC Share Price Index	22 Mar 79	334.54	309.41	+8.00
Reserve Bank Share Price Index.	21 Mar 79	1394	1301	+7.00

'Recovery follows slow erratic process'

by Peter V O'Brien

THE Institute of Economic Research is a frustrating organisation. Do we classify its Quarterly Predictions as the product of an editorial chair, a university ivory tower, or a marble palace?

On reflection, the last can be removed from the possibilities, given the wooden structure on The Terrace, Wellington in which the institute is housed.

The March issue of Quarterly Predictions is a relatively pessimistic document, if its forecasts are correct, and if they are not affected by policy changes in the coming months.

The institute sees a continuing high Government deficit, although improving slightly in 1979-80, a worsening in the balance of payments, and a rise in inflation in 1979-80. Inflationary pressures are expected to ease toward the end of the year "as demand tapers off . . . especially if there has been any significant increase in unemployment. The effects of this would probably not be apparent until about the middle of 1980".

Industrial and commercial interests will note the institute's comments on stock levels, which are based on the regular Quarterly Survey of Business Opinion. The Survey is a concrete expression of how businessmen feel about prospects, and how they react to their feelings. Consequently it is a useful document for assessing probable business action, which in turn relates to the total economic environment.

The institute says: "The normal assumption underlying our stocks forecasts is that stock-holders seek to maintain stocks at some optimum level in relation to their expected sales. It follows that total economy stocks will, over the long term, have a reasonably stable relationship to total expenditures. Any short term departure from the normal stocks to expenditure ratio, as a consequence of unanticipated changes in sales at the level of the individual stock-holder, should eventually be restored."

In the institute's view, manufacturers and distributors have allowed stocks to run below "normal", because they do not want to be caught "in a repeat of the 1977 stocks squeeze". They are waiting for definite evidence of economic recovery before restocking. "This helps explain the comparatively sluggish upturn in import payments (although orders are rising more rapidly) in spite of the recovery in consumption in late 1978."

Stocks are considered now to be below the long term optimum level, but the institute predicts that stock rebuilding will not commence until April and that "even then the return to more normal levels will be gradual". The results of the December survey of business opinion support that forecast for the immediate future.

The general assessment is that "total stocks are estimated to have increased, in current prices, by $210 million in the year to March 31, 1979, and are forecast to increase a further $590 million to March 31, 1980".

If those projections are correct, they have implications for the finance sector. Slow growth rate in stocks will result in a corresponding slower growth rate in working capital requirements, although other influences work on the total demand for short term finance.

At present there is an upward movement in interest rates on short term money, caused partly by the tighter money policy imposed on the banks and other institutions, and partly by the financial requirements of the increasing level of imports.

The institute's forecast suggests that the stock finance influence is unlikely to have a sudden impact on rates for short term funds for most of this year.

That view could alter depending on the Government's policy decisions in the Budget. If businessmen see evidence of vigorous and imaginative policies in that document their confidence level will alter, and they will be prepared to restock. They will, incidentally, have another look at longer term investment options.

The latter is currently [illegible] constraining influence [illegible] demand for medium to [illegible] term finance, because [illegible] panies are operating [illegible] excess capacity, and [illegible] climate of doubt about [illegible] economy's development.

The combined effect [illegible] heavy decline in real [illegible] penditure on private [illegible] vestment and stocks, [illegible] Government expansionary policies, are said to [illegible] each other out so that [illegible] outlay in 1978-79 will be [illegible] (An 11 per cent increase [illegible] price change offsets an 11 [illegible] cent increase in domes[illegible] outlay.)

For 1979-80 the institu[illegible] forecasts a 15.5 per cent [illegible] crease in domestic [illegible] comprising 3 per cent [illegible] growth, and 12 per cent [illegible] change, the latter being [illegible] than this year, and [illegible] away from the goal of less [illegible] 10 per cent. "The real gro[illegible] follows largely from [illegible] continual impact of [illegible] policy stimulus and the [illegible] proved farming and [illegible] trepreneurial income [illegible] apparent in 1978-79."

Although that summary denotes an "improvement", [illegible] also shows that recovery [illegible] be a slow and erratic proce[illegible]

Freightways cautiously predicts consistent 1979 profit levels

by Peter V O'Brien

INVESTOR INSIGHT

THE market added 7 cents to Freightways Express' share price last week after the company announced a profit lift of 32 per cent for the first six months of the current year, and an increase in the interim dividend.

The day after the announcement the share price went up to $1.08. The interim dividend was increased from 4 cents (8 per cent) to 4.5 cents.

Assuming a similar dividend increase in the second half, the company would be paying 18 per cent for the year, compared with 16 per cent last year. (If the final dividend stays at 8 per cent the total will be 17 per cent, or 8.5 cents a share.)

A total payment of 18 per cent gives a dividend yield of 8.3 per cent at $1.08, compared with 8 per cent when the shares were priced at $1, and when there was no indication that the company would increase the payout.

If the share price reflected a projected 8 per cent yield from an 18 per cent dividend, it would rise to $1.12, without allowance for higher earning rates on capital and funds.

The increase in revenue has also continued into the second half. Subject to any "abnormal factors" outside the group's control, "the 1979 financial year's result should reflect a consistent level of profit".

The group has benefited from the general higher level of economic activity which arose from last year's "stimulation". Farmers are having a good season, so rural transport business should be doing reasonably well. In general cartage and freightforwarding, the growing volume of imports would have an impact on Freightways' business.

But the company will soon be facing one of those "abnormal factors". Road user charges go up 20 per cent on April 1, a movement which is causing concern among transport operators.

A 20 per cent increase, plus the inevitable cost movement when the Government lifts the price of petrol, will push freight rates ahead.

On present rates Freightways is paying about $600,000 a year more than it did under the old system. The amount will go up in April. Against that factor (and the effects of an inevitable tightening of economic conditions over the next 12 months). there is the comment in the interim report regarding new ventures.

The directors said that [illegible] operating divisions tr[illegible] profitably, "particularly [illegible] ventures established in [illegible] previous year".

That statement appar[illegible] refers to the courier comp[illegible] NZ Couriers Ltd, in which [illegible] per cent interest was acq[illegible] in July 1977, with [illegible] subsequent increase to 100 [illegible] cent. It is also relevant [illegible] Computer Timesharing Ltd [illegible] computer bureau servi[illegible] both the Freightways gr[illegible] and outside customers. Freightways has 75 per cent [illegible] this organisation.

Freightways earn[illegible] $2,900,000 last year, to produ[illegible] an earning rate of 21.1 cents [illegible] share. The dividend of 8 cents [illegible] a share was covered [illegible] times.

If the company can earn [illegible] per cent more for the wh[illegible] year (less than the 32 per cent [illegible] improvement in the first half) its profit would be ab[illegible] $3,850,000 at June 30, 19[illegible]

The present price repres[illegible] a projected price earni[illegible] multiple of only 3.6, while [illegible] per cent dividend would [illegible] covered 3.1 times. The yi[illegible] as seen earlier, rises to 8.[illegible] cent.

Freightways is unlikely [illegible] return to its almost incre[illegible] share price growth of five [illegible] six years ago, particularly [illegible] present economic condi[illegible] which put pressure on [illegible] transport industry. But [illegible] shares look interesting [illegible] present levels.

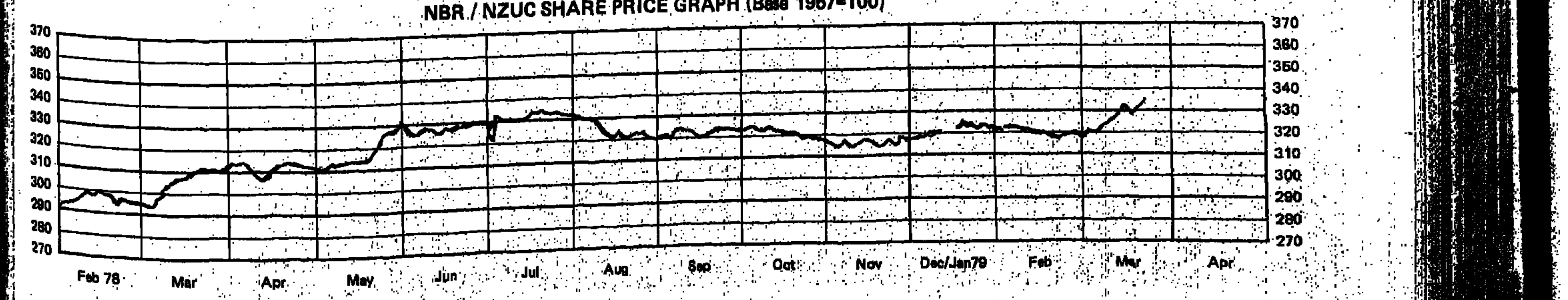
NBR SHAREMARKET SURVEY

WEEK ENDING MARCH 22, 1979

1979 High	1979 Low		Last Sale	Week's High	Week's Low	Dividend %	Reported Turnover	Dividend Yield	P/E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

1979 High	1979 Low		Last Sale	Week's High	Week's Low	Dividend %	Reported Turnover	Dividend Yield	P/E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NBR / NZUC SHARE PRICE GRAPH (Base 1967=100)



Legal battle stalls new air service

THE legal battle between the Air Services Licensing Authority and the Haulaways Corporation is stalling the start of a new air service covering Air North's former routes.

In the meantime, the authority has overruled Air North objections at its routes being given to other operators.

The authority decided last week to give the Mount Cook Group permission to use extra aircraft on the Auckland-Rotorua sector, and earlier gave the Auckland-Kaikohe service to the Auckland Aero Club.

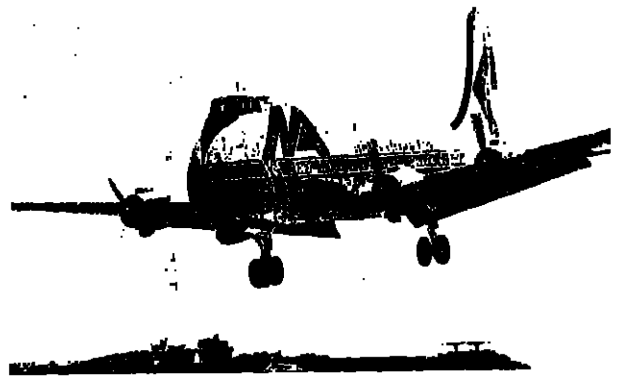
Air North is now called Nationwide Air and is in receivership following the financial troubles of the beleaguered Haulaways Corporation.

The authority said all Air North services were terminated by the receiver who was appointed in December, and that it can see "no validity in an objection on behalf of an operator which has withdrawn its services and is now in the hands of a receiver."

The authority's latest decision removes restrictions on licences held by Mount Cook operating between Auckland and Rotorua, which were originally put in to protect Air North from Mount Cook competition.

Specifically it gives Mount Cook the right to use a nine seater Britain Norman Islander aircraft on the Auckland-Rotorua services and the right to use the aircraft for charter and taxi work from a Rotorua base.

Previously, Mount Cook was restricted to using only its 48-seater HS748s on the service and could not pick up passengers at Rotorua in other aircraft for the Auckland trip.



NATIONWIDE...takes Supreme Court action

Since the receiver's appointment, none of Air North's previous services has continued, but in late February the licence was sold by the receiver to a company called DHR Wilkie Aviation Limited.

Earlier the receiver was advised by the Licensing Authority of outstanding legal matters which would prevent transferring of the Air North licence to any other body.

According to the authority's decision Wilkie was aware of the following points when he agreed to buy the old Air North licence:

- Nationwide Air (Air North) had appealed against the authority's refusal to add a Cessna 402 to the licence.
- Nationwide Air had appealed against the authority's decision to amend its standard terms and conditions order. The authority had changed the order to make comparability of freight capacity a factor as well as comparability of passenger seats when a company sought to substitute one aircraft for another on its licence.
- Nationwide was also taking Supreme Court action against the authority seeking an order that the substitu[tion] of a Convair and a Carvair [for] two smaller aircraft was [valid] in terms of the order.
- Nationwide Air was seek[ing] a court order on whether [the] authority could hold a p[ublic] enquiry into the operati[ons of] Air North.

The two appeals will n[ot be] heard until the Supreme C[ourt] matters have been dealt [with] and no dates have been se[t for] those.

On-line ai[r] booking

by Stephen Bell

ON-LINE air ticket bo[oking] systems for travel agent[s are] already set to enter [New] Zealand (NBR, Februa[ry ...]) but access to Air [New] Zealand's reservations f[iles is] obviously the big prize – [and] the winner, or winners, [will be] decided by the airline [...].

Air NZ is in the initial [stages] of evaluating rival supp[liers'] travel agent reserv[ation] systems, and has made [it clear] that it expects the final [say on] whose system access[es its] files.

Some suppliers see [this] attitude an attack [on the] freedom of the end user – [the] travel agent – to decide [what] equipment he will use.

The airline, though, [defends] its rights on eco[nomic] grounds. If a system [were] allowed access to the [files and] was commercially [un]successful or inefficie[nt], someone would have to [pay] the losses and, in the [end, it] would either be Air NZ [or its] passengers, said [airline] spokesmen.

Suppliers already [in the] market range from [large] networks like the Brit[ish] Videcom venture to [...] small in-house installatio[ns for] individual travel agent[s].

Air NZ marketing dir[ector] Norman Searle insists [the] airline is willing to look at [any] system which comes up. [At] least one of the sci[...] suppliers claims it has [...] been rebuffed in efforts [to have] its system evaluated.

NORMAN SEARLE...wil[ling to look] at any system

The most economical [an]swer for the travel agen[t] probably be a "multi[...] system – a single [...] accessing the files of [several] airlines. Air NZ [...] confirms that single [...] systems – supplied [by] the airline and giving [access to] its files only – are als[o being] considered.

Searle stressed [...] that the evaluation was [at] a very early stage, [and the] question of whether [travel] agents would be tied [to a] particular system for A[ir NZ] bookings or allowed a [certain] amount of freedom had [not] been settled.

There is clearly the p[otential] for some heated ar[gument] among Air NZ, [...] suppliers and travel [agents] later in the year, whe[n ...] begin firming up.

NZR destiny rests with political master

by Bob Stott

THE Government's vetoing of a proposal to establish a new South Island rail ferry port — one of the more important points in the NZR discussion paper "Time for Change" — comes at an opportune time.

The decision illustrates how Railways are not masters of their own destiny — and how Railway staff are not entirely responsible for the various ills, real and imagined, which plague this crucial transport service.

In "Time for Change", Railways' general manager, Trevor Hayward, explains how shifting of the ferry terminal from Picton to Clifford Bay near Lake Grassmere would cut the sea time by 40 minutes.

The overall time from Wellington to Christchurch would be reduced by up to three hours for goods and cut to about eight hours for passengers using the ferry and connecting rail service. Travelling times from Wellington to Blenheim and Nelson would be reduced and "substantial economies would be achieved and some charges would be reduced," he said.

It is not hard to see how costs would be reduced. With a saving of 80 minutes on a round trip, ferries could do more work in a year. Bigger ships than could conveniently use the tortuous approaches to Picton would be possible. The 83 kilometre of railway from Grassmere to Picton could be downgraded to branchline status and Spring Creek-Picton could even be closed.

Reduced running of cars, trains and trucks using the ferry, plus the cut in sea distance also add up to some degree of fuel saving.

The overall savings offer at least 10 per cent return on capital invested in a new Clifford Bay port — but it is not to be.

At the Harbours Association conference in Picton earlier this month Railways' Minister, Colin McLachlan said the Clifford Bay scheme would not proceed.

On February 1, McLachlan pointed out that the rail ferries had carried a record of more than 200,000 passengers and almost 40,000 motor vehicles during the holiday season to the end of January.

The Railways' 31 3 78 annual report shows that in the preceding year 724,242 passengers, 148,228 cars, 51,629 commercial vehicles and 1,612,268 tonnes of goods were carried on the ferries.

As the population of Picton is only 3500, most of the people, cars, lorries and tonnes passing over the wharves must be generated at points well south of Picton and in the Nelson district.

Leaving the ferries at Picton offers the best possible service for the least number of people.

In response to the Minister's statement Hayward said the study of the Clifford Bay proposal would be completed.

"This is necessary to identify an area of cost which is one of the factors preventing the department from achieving an overall profit," he said.

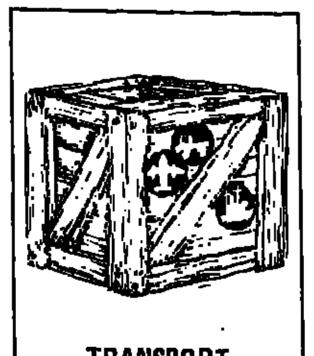
"This is not to suggest that the Clifford Bay proposal should proceed, but to promote an understanding of the cost of Railways operating in the present way for social reasons when there may be a cheaper alternative.

"To continue operating through Picton may involve significant costs in comparison with Clifford Bay and in line with the principle set down in Time for Change the completion of this study is essential to establish and identify the social costs involved," Hayward said.

What he is in effect saying is that if the Railways are forced to run in an uneconomic way, then the NZR wants the public to know what it could do if left to its own devices.

The ferry shift veto casts a shadow over the Government's much vaunted "user pays" philosophy. It's all very well asking the user to pay the full cost of a transport service, but in turn the user can surely expect that the service he is paying for is being run as economically as possible.

Furthermore, if it is considered "socially beneficial" to detour ¾ million people and 1.6 million tonnes of freight through Picton each year then it can hardly be argued that only one train should make the Wellington-Auckland trip each night.



TRANSPORT

It's no wonder that the Manufacturers' Federation was critical of what it saw as "outright rejection" of the ferry terminal shift. Federation director-general Ian Douglas said the greatest obstacle to more balanced economic development was the exorbitant transport costs. If the Clifford Bay idea was economic and could speed up the flow of goods, manufacturers would be right behind it.

Finally, it is appropriate to summarise the sorts of factors which led the NZR in the first place to cast round for a new South Island terminal.

- To be as economic as possible, new rail ferries should be larger — maybe twice the size of the Aramoana and Aranui — but ships of that size would not be able to use Picton because of the tortuous and narrow approaches.
- The Picton ferry terminal is incapable of further development. The site is cramped, bound by sea, steep hills and very expensive real estate.
- Moving the ferry terminal south would avoid the steepest railway grade on the Christchurch route, (the climb out of Picton to Elevation and the Dashwood Pass climb.) allowing a given fleet of locomotives to move more freight.
- For passengers, the run from Wellington to Christchurch would be cut from 11 to 8 hours, goods trains would save at least three hours, and there would be corresponding savings for private motorists and trucks.

Why the Government should veto such a scheme is beyond me, unless it is that the nation is now so broke that it cannot even afford to spend relatively modest sums today in order to achieve worthwhile future savings.

The only other explanation is that Picton's 3500 population has a political clout beyond my wildest dreams.

EEC open letter draws defence of tradition. . .

by J V White

IN HIS February 7 open letter to Gundelach, the NBR Economics Correspondent criticised New Zealand exporters for not diversifying markets — a theme that isn't new. In fact the points he made were threshed out many years ago.

The rather amusing aspect is that it is hardly likely that Olav Gundelach will be particularly anxious to take this particular message back to Brussels. The European Economic Commission fights a continuing battle with the Agricultural Ministers of The Nine to try to curb the growth of agricultural protectionism.

Officials such as Gundelach are not only free traders by birth, (he is Danish), training (he was one of the senior officials of GATT), but also have a genuine fear of the destructive influence of the present CAP (Common Agricultural Policy) on the Community itself, specially now that Britain is a member. It was problems of the CAP, for example, which frustrated the negotiations for ECU, the proposed common currency unit which the commission badly wants and the Community badly needs.

But the open letter does raise some interesting points about our trading problems.

Appreciation is necessary of the limitations within which we must work.

There is the physical problem of resources. We have a climate adapted to growing pastures and pine trees and to the maintenance of livestock outdoors and thus with a minimum of labour.

We do not have any substantial areas of very good soils. Most of our farm land is hilly, some very steep.

But we have developed a system of farming with reasonably large holdings and we have taken advantage of the considerable potential which lies in the application of science to the practice of farming.

This combination of climate, economies of scale and applied science gives us a great advantage in producing livestock products. Nevertheless, although we can produce more cheaply than most other countries, livestock products are expensive to produce and expensive to get to market; and the more fully they are processed the more expensive they are.

In principle, much the same applies to products from our pine forests.

This constraint in marketing possibilities greatly limits market potential for several reasons. The richer countries comprise the OECD group, to an increasing extent the USSR and OPEC members in the Middle East. Most of these countries, or blocs, have high and growing incomes but very slow rates of population increase.

More important, they are mainly in temperate zone regions and also produce livestock products (not, of course, the Middle East group). Farm holdings tend to be small, hence the farm population is sufficiently numerous to constitute an important political force; hence the strong degree of agricultural protectionism.

In spite of the problems these countries, mainly the OECD group plus apparently to an increasing extent the USSR, constitute our main markets. This will continue for quite some time yet.

Well, it may be asked, are we producing the right things? Are not Third World countries short of food and is not New Zealand an efficient food supplier and should we not be meeting that demand?

Take the second question first. The answer is: "No, not really." About four years ago the world went through a period of serious grain shortages because of droughts in China and Russia and many do-gooders began lamenting over the amount of grain fed to animals instead of direct to humans.

The position has changed. Grain stocks in most countries are high. In India, one of the countries with very great food supply problems, grain surpluses have proved an embarrassment to handle and to store. It is true that the diet of people in many developing countries is deficient in animal protein, but animal proteins are expensive which is why our markets are in the more affluent countries.

Which brings us to the first question, are we producing the right products?

New Zealand's capacity for grain production is not great. The dairying areas of the Waikato and Bay of Plenty have proved to be excellent for maize; but maize is used largely for stock feed and the markets are in the richer countries which use maize and other imported feedstuffs to produce milk, beef, pork and poultry products.

Lately, there has been some development in horticultural products, particularly subtropical fruits and there is increasing interest in asparagus. Another alternative to traditional livestock products, in which very large sums are being invested, is deer-farming, the profitability of which will depend a great deal on a continuing market for the high priced portions of the animal which are used in the manufacture of aphrodisiacs.

True, this market will be in Asia but the markets for most of these products will be in those countries where a substantial proportion of the population has high levels of income bringing us back to the OECD group plus Middle East oil countries.

The Middle East oil states meet the criteria of wealth and taste. In fact the 1978 projections of the Food and Agriculture Organisation indicated the Middle East, and particularly Iran, as the principal growth area for sheepmeats. Well we hope that they will still be right but Iran is the key-pin because it has a large population, and, incidentally, resources other than sand and oil. Some of the wealthier oil states lack the population to become significantly large markets.

The developments in Iran highlight the continuing need for the backlog of the European market. In fact, there is no reason why a substantial market for lamb should not be built up in continental Europe. The same applies to North America; again the richer countries. But it would be most undesirable to become dependent on one region such as the Middle East or even America in the way we were on the United Kingdon market.

Continuing lamb sales to Europe are necessary for the maintenance of a healthy sheep industry but butter presents a very much greater problem. Sales of anhydrous fat (butter in another form) have increased, mainly to Third World countries, but the one thing which is quite certain is that there is no vast untapped market in Asia for butter. New Zealand is not the only dairy exporter to have discovered this unpalatable fact. The EEC have themselves. The viability of the dairy industry and hence about 15 per cent of our export earnings depend on the maintenance of a significant, if declining market in Europe.

China is still a poor country and will buy the things it needs and which it has bought for some time: wool, hides and skins, tallow, wood pulp and possibly other raw materials, perhaps some meat for not yet built tourist hotels. In fact most tourists will probably prefer to sample Chinese food. Perhaps in 10 years' time the position will be different. This again emphasises the need for a stay of execution as far as the EEC is concerned.

In this very potted analysis of the likely marketing situation I have concentrated on the agricultural sector which is the issue as far as the Community is concerned, and which, in any case, is likely to remain the most important in the reasonably foreseeable future.

Other types of products, forestry, fish (at present under a cloud) and manufactured goods may have good prospects in the Asian region but even if this is the case it does not warrant surrendering the European market for the products which are quite basic in maintaining the viability of our major livestock industries covering some three-quarters of the value of our exports of goods.

. . . and a cry to innovate

Economics Correspondent

OLAV Gundelach has postponed his trip to New Zealand. Until we see the man in the flesh, we cannot know what message he carries from the EEC to New Zealand — and this provides us with one of the essential ingredients in any debate, an unknown quantity.

Because nobody knows for certain what Gundelach will say, those so inclined may speculate.

In the long run, Gundelach's identification as a free-trader should be good for New Zealand's interest. In the short run, however, he may be forced to put the interests of the European farming community before those of the New Zealand farmer. He is unlikely to completely cut-off New Zealand trade, but may be compelled to tighten up quotas for butter and lamb.

There is another important unknown in this debate: the potential for New Zealand to develop new markets overseas for her traditional agriculture products.

In the past, the trade issue has been argued largely with reference to conventional wisdom about traditional markets. Those who repeat the conventional wisdom have the safest position in this sort of debate. Those who attempt to look beyond what is known or believed must expect to be labelled stirrers.

The theme of my open letter to Gundelach was that New Zealand exporters have already diversified (both products and markets) and are likely to continue to do so. J V White suggests further market expansion in the Middle East.

All of our energies should go to encourage this healthy trend.

While secure markets provide a base for developing new markets for our traditional agricultural exports (for example, by continuing to trade butter and cheese with the EEC, we can encourage dairy farmers to keep their stock until new markets are found), they also blunt our interest in looking for new markets. If our few Government Cabinet Ministers and diplomats spend their limited time negotiating with the EEC for continuing quotas, they will have less time and energy to spend discovering and negotiating for new markets.

Our only planning body, the New Zealand Planning Council, devoted its only major report on trade to New Zealand's relationship with the EEC. It claimed that New Zealand exporters could not diversify further, but published a chart showing that they have diversified rapidly since 1965.

As nearly one-third of our exports are sold to the EEC, the market is of undeniable importance to us. The market is densely populated with people of reasonably high incomes, which makes it a perfect market for New Zealand products (as White points out).

But certainly our priorities are wrongly placed if our major planning and research effort goes to secure existing, if uncertain, markets rather than to determine the appropriate directions for future development in new circumstances.

Energy price gets priority

YOUR editorial of February 21 went too far in claiming a "shambles" exists in energy policy making. On the contrary, the 60 per cent bulk price increase for electricity is clearly the first move planned in economic restructuring. Energy pricing has been given priority in this process, but other developments can be expected in areas of the economy which are distorted, presumably in the order of their misalignment or economic significance.

Those who have watched the portents will recall the former Minister of Energy's statement that "the days of cheap electricity are over". Other straws in the wind were the International Energy Agency's published advice to the Government stating that our electricity was being grossly undervalued, particularly in view of the capital and running costs for new generating plant.

The Government was generally understood to have accepted most of the IEA's advice, so that an increase of some magnitude was obviously only a matter of time. Indeed, even Labour politicians before the General Election were able to predict a 100 per cent tariff increase — only exaggerating by 40 per cent! Your editorial statement that domestic solar water heater sales suffered following the last Budget is true, but the $500 interest-free loan scheme has undoubtedly just received a life-saving boost with the bulk increase, and though the assistance was perhaps overdue, Electrical Supply Authorities and the Ministry of Energy will now be obliged by public demand to implement the Government's solar heating policy to the utmost.

You say the present policy links indigenous fuel prices with those of oil imports, and discourages use of a homegrown product "with which we are glutted". This comment seems premature in view of the anticipated realignment of other energy prices in the reshaped economic structure. The diversion of electricity to more appropriate functions than water heating can only be helped by the new tariff. Such developments include electrification of the main trunk line, revival of metropolitan trolley fleets, and use in a variety of essential industries such as fertiliser manufacturing.

It is axiomatic that the Government and its officials seldom disclose their long-term plans or options. Energy Goals and Guidelines seemed to offer a welcome change in direction, and involved the public far more widely than is usual in decision making. The ultimate aim was to obtain a consensus. Clearly the Government and its advisers made their decision, having evaluated the alternatives produced by Goals and Guidelines, in the light of further advice from overseas authorities and taking account of disturbing developments affecting our major suppliers of imported fuel.

Unfortunately, Goals and Guidelines may have encouraged people to think the discussion of energy policy could go on forever, and to these the Government's electricity price increase will appear abrupt. In fact, all evidence points to a "grand design" for energy which time will show has been well considered.

J D C Laing,
Auckland.

LETTERS

Rewards to labour

ON page 16 of the February 14 issue, you had a truly remarkable sentence: "Growth in the rewards to labour exceeded total net output growth, although virtually all of this was lost in direct taxation."

An increase in the cost of labour is not necessarily "growth in the rewards to labour" (for example, payroll tax). Mr McDonald would find it easier to express himself intelligibly to non-economists — who are still largely dependent on English for their information — if he first defined what he meant and used language to convey ideas consistent with the facts he purports to be describing.

His "rewards to labour" consist of two parts, each paid by the employer in the first place and subsequently recouped from customers. These two constituents are (1) the workers' take-home pay (THP), and (2) the PAYE that must be paid by the employer for permission to give his workers their THP for their labour.

Contrary to what Mr McDonald and many workers believe, PAYE is not a reward to labour. It bears the same relation to a worker's pay as a dog licence to keeping a dog, that is, it is a fee that must be paid for permission to incur certain expenses, whether they be the cost of keeping a dog or paying a workman.

In the private sector, employers must pay a sum (PAYE) over and above an employee's wages (THP) as a condition of giving a man employment; both of these sums are lumped together under wages, but quite erroneously, as wages are destined for employees, but PAYE was never meant for them; workers pay taxes out of their actual wages (THP) whenever they buy anything; they then pay both the THP and the PAYE advanced by employers in respect of other employees. In short, a worker pays no taxes until he starts to spend his THP.

From an employer's point of view, the tax on labour is progressive — the more THP he wants to give a man, the more PAYE he must pay to do so. A progressive tax, however, on the employing of labour is a regressive tax on the receipt of wages (THP). If, say, it cost $3500 for a married couple with two children to clothe, feed and house themselves adequately, and $800 of that $3500 represented PAYE on workers' wages and income tax on employers' profits, then a man with an annual THP of $4000 must pay 20 per cent of his income in tax, but a man on a THP of $10,000 must pay only 8 per cent.

C T Reid,
Papatoetoe.

Behind the National line

IT is obvious to me that at least in Mairangi-Murrays Bay branch of the National Party they are still not prepared to have any of the National Alternative supporters join the ranks of the Party.

A number of us, who are still loyal National Party supporters, sent our annual subscriptions to the secretary of the branch when we heard through the grapevine that their annual general meeting was scheduled for Thursday March 8.

Every one of us received letters, registered and costing 75c to post, saying either that we would be considered at a committee meeting to be held after the AGM, or telling us that our membership had ceased due to the fact that we had nominated David Phillips, the National Alternative candidate who opposed Frank Gill.

We were also told that we would be unable to attend the meeting.

I just don't understand why the new applications are being processed after the AGM if there is nothing to hide, and wonder why these people are unacceptable to the National Party when all they did was vote for David Phillips.

I wonder if someone who had defected from the Labour camp would be treated with such caution if he said he felt that National was his choice for the 1981 election.

I searched the public notices in our local paper, but was unable to find any notices advertising any of the East Coast Bays branch meetings, yet I found advertisements from Albany and Birkenhead.

This surprised me, because this was one of the things we objected to before we decided to put up a candidate. I really expected them to be more open than they had been in the past.

The electorate chairman, Bob Browne, was quoted in the Auckland Star on March 8 . . . "we are not prepared to have a takeover situation here. . ." which suggests that he thought that there were enough of us to take over that branch at least.

I suppose that's why we were told we couldn't attend the meeting.

We didn't feel we should take all this lying down and decided to consult our solicitor, and duly did.

He advised us that the branch committee had acted outside the Rules of the National Party, and that we should attend the meeting and ask to be admitted and to insist that we were members and entitled to vote.

We arrived at the church hall armed with nothing more than a letter for the chairman and our cheques.

As I came into the church grounds, I saw that there was a police car parked near the annex. As I approached the porch, I could clearly see a police constable standing inside the doorway.

As I neared the door, Bob Browne came towards me and we exchanged salutations and I asked him why he thought it necessary to invite the police. He told me that I was unpredictable and I laughed and said I was probably the most predictable person he knew. But I later found out he thought we were coming with all our supporters and that, of course, could have meant a confrontation.

I explained to Mr Browne that we had come to attend the meeting and handed him my letter as did my associate Ed Pownall, and we waited until he discussed the contents of the letter with his committee.

He returned after a very short time and told us that he did not accept the opinion of our solicitor and that we were unable to attend the meeting. He then returned the letters and the cheques and we moved off the steps of the porch and waited for some other people to arrive.

The other people, incidentally, numbered two, and not as previously thought hundreds.

A short time later, the police officer came out of the hall door — which remained closed and locked from the time we left the porch until the police officer came out.

If it wasn't serious it would be funny, as every person who arrived late had to knock on the door and wait until it was unlocked and opened before they could enter the hall to attend the meeting.

We left the church grounds and went to consult with our solicitor, who advised us that we could take Supreme Court action.

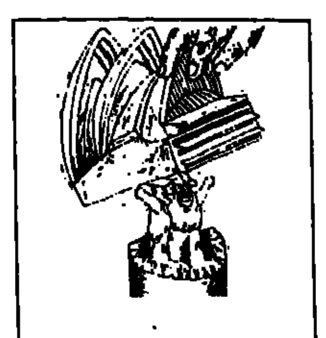
We have instructed him to do so and it is now over to him.

Already we have had calls from people outside the electorate and from inside too who wish to assist us with our legal expenses and we are very pleased that this (our action) is being upheld by people we don't even know but who feel we have been wronged by the branch of the party.

James H Bridges,
Mairangi Bay,
Auckland.

Australian politicians play Russian roulette

by Spiro Zavos


THE AUSTRALIANS

SINCE he fell out with John Gorton and helped that worthy man to fall from his position of Prime Minister of Australia, Malcolm Fraser has toppled many other Australian politicians. Billy Snedden was one, a helpless victim once Fraser decided to move against him.

Since Fraser has been Prime Minister, a total of six MPs have been pushed out or jumped from their ministerial offices. The latest, Queensland MP Eric Robinson, former Finance Minister, is the most intriguing political suicide.

Robinson is a rich man. He has a string of sports shops and other financial interests. He is also a political heavyweight, having been the president of the Queensland Liberal Party. He went into Federal politics because he wanted something to engage his talents and his energies. As Minister of Finance, he had a powerful position—not as powerful as his New Zealand counterpart's, for there is also a Federal Treasurer. But, nevertheless, it was a job which took him to the heart of policy questions, and power to decide how they were to be answered.

When he decided to resign, there was a flurry of activity from Canberra-based journalists. Around 6.30 p m , Robinson went to a meeting of Liberal backbenchers. He told them he had resigned and was quoted as saying: "I'm not serving under that bastard any longer." The ABC and the commercial radio stations picked up the story of his resignation. Later that night it became official, when Fraser read out a short statement in the House. The Labor Opposition tried to mount a debate on the resignation, but this was gagged and the House recessed for the evening.

Journalists tried to find out what had made Robinson take such drastic action. The former Minister was tight-lipped. "Ask the Prime Minister," he replied. The Prime Minister was similarly secretive. "I doubt," he said, "if the real reason will ever come out."

Just as power abhors a vacuum, so do journalists abhor virtual "no comments". In the best traditions of the profession, they attempted to fill in the empty spaces between the words. The most favoured explanation was that Fraser and Robinson had fallen out over a decision by Fraser to let the Queensland National Party (the former Country Party) run on the same Senate ticket as the Liberals. Only students of the more arcane aspects of the Australian political scene will want to know the political ramifications of this; suffice to say, it was not what Queensland Liberals wanted. Most of them fear and dislike Premier Joh Bjelke-Petersen as much as Labor supporters.

Other explanations were that Robinson was annoyed at the way the Prime Minister rejected an election promise and refused to allow six-monthly indexation of pensions.

Still more explanations involved the alleged disgust of Robinson with Malcolm Fraser's style of leadership.

On his resignation, Robinson wrote a three-page letter to the Prime Minister explaining his action. In the Westminster tradition, the letter should have been read out to the House, along with the Prime Minister's reply. Politicians are servants not only of their parties, their constituencies and their leaders—but also of Parliament. An action as extreme as resigning should be dignified by a careful explanation.

The journalists in Canberra became frantic when, three days after his resignation, Robinson un-resigned. He had had a two-hour meeting with Fraser in Melbourne on the Sunday morning, and the two men decided that they could live together.

Again, only the shortest of press statements was issued. The media were forced to fall back on speculation over the volte-face. Most pundits decided that Robinson had won a significant victory, and that Fraser had backed down on whatever demands Robinson had made of him.

While this may be true, it is probably not the whole truth. Fraser has a way of getting what he wants. The defection of Robinson, because he was a numbers man, was damaging to him. Now Robinson is back in the Cabinet again. No one in the Australian media seems to have realised that this puts him in a weaker position than he was before. As Lady Bracknell said, to lose a handbag twice is more than mere carelessness. And so is resigning twice. There is a law of diminishing returns in matters like this, and Robinson has probably shot his bolt if he wants to do it again. The media will not make much of the story.

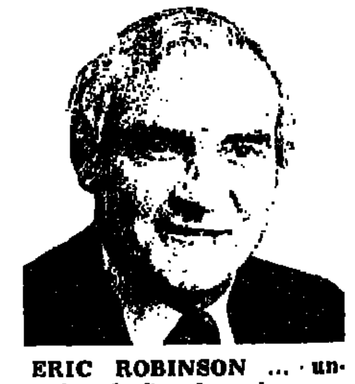
In this respect, Fraser has emerged from the potential crisis better than anyone could have imagined when Robinson dropped his initial bombshell—that is, in terms of party politics. But on the national politics level, perhaps not so well.

He was going to take politics off the front page, he promised the public. Alas, like most politicians' promises, it has not been carried out. The Fraser administration in its way has been every bit as controversial as the Whitlam administration it replaced. Politics haven't left the front page since the Fraser administration came to power, even though the Prime Minister rarely has press conferences, has no wit or turn of phrase as Whitlam had, and the Liberals have traditionally been less willing to wash their dirty party linen in public as Labor always does.


MALCOLM FRASER ... has toppled many politicians.

There is no doubt that Fraser will ride this storm, as he has all the others in his tempestuous political career. There is no one who could replace him, or who would be willing to replace him. The most likely contender, Andrew Peacock, is getting more headlines for his supposed courtship of Shirley MacLaine (she says he is the only person she knows who has a Gucci toothbrush) than for any political successes. No doubt Peacock will one day be Prime Minister; he is still in his 30s, so something like two decades is about the time-scale he should be looking at.

Nor has this incident affected Fraser's public standing. The opinion polls show him scoring relatively low in public appeal. But this has always been the case. Fraser has never been a lovable man. He preaches the doctrine of blood, tears and sweat — and the public accepts this from him, despite his rich grazier background. He is a dour, long-faced man, whose only memorable words were: "Life was not meant to be easy." Yet he has a commanding presence, something to do with his height (like De Gaulle he was a very tall man) and his total belief in the rightness of his actions.


ERIC ROBINSON ... un-resigned after three days.

This arrogance has been reinforced lately. Only Fraser, against all the advice of his intelligence experts and in face of criticism from the media, predicted that China would invade Vietnam.

When you are right on a big issue like this, the matter of a small local difficulty like the Robinson affair peters into insignificance.

Psyching the smokers

ACADEMICS are not popularly supposed to be practical, let alone commercial, people. But this concept is in the process of being shattered by three *behavioural psychologists* from Otago who are making marketing history. Having developed and proved a programme designed to help smokers quit the habit, they have set up an organisation and are now advertising and selling the idea in the marketplace. Further, they are moving into export markets, *beginning* with Australia.

They compose the directorate of the Isis Research Centre which has launched the Isis smoking cessation programme on the New Zealand market. Dr David Marks, a senior lecturer in psychology, received his doctorate in experimental psychology at the University of Sheffield. Paul Sulzberger, the educational director, graduated at *Victoria* University and attended Moscow State University for two years. Ian Hodgson, research director, is an Otago graduate in both biochemistry and psychology. All are ex-smokers.

In 1978, an evaluation of the experimental programme conducted with a total of 479 people showed that 82 per cent kicked the smoking habit completely, and the remainder reduced their consumption to a much lower level.

ADMARK

A total of 33 course directors, principally psychologists, have now been trained to conduct the Isis programme — there are seven in Auckland, three in Wellington, for example — and most cities are now covered.

New courses, with about 20 persons in each group, start each week in every area, and already well over 2000 people have participated. Inquiries are instigated by advertising and national magazines, and daily press are carrying the *fairly low-key message* in a campaign handled by Ilott. Business is reported to be brisk.

One of the marketing developments is setting up groups within business houses. Employers see considerable benefits in eliminating or reducing smoking levels of employees, in addition to the obvious one of countering the risks of smoking-related diseases.

Childrens' magazine

"AT LAST — a magazine for children," says the bright red and yellow rate card. And no doubt, that's pretty much what many New Zealand youngsters will say when Jabberwocky comes out on May 1, because, regardless of how good it is, the magazine must go some way toward filling a total void in the junior market.

Jabberwocky will initially be aimed at eight to 14-year-olds, but if successful a colour section might be added for younger children.

The magazine is the product of two years' research by editor-publisher Jo Noble and will be a monthly with a minimum of 32 pages and a cover price of 75 cents.

Initially the print run will be 5000 with distribution through book shops and subscription but Noble is confident this should grow to 10,000 by August.

Ultimately, she expects at least 60 per cent of its editorial content to come from paid contributions by children.

Dorothy Butler will contribute a regular column on what is new in paperbacks, while Diana Moorhead will run a series on the handling of imagery in kids books — the inevitable wizards, witches, dragons etc.

"I have absolutely no doubt that the magazine will work. The kids I have spoken to are very excited about having a local magazine," says Noble.

All should be forgiven: National Party needs Muldoon

by Jeff Gamlin

PRIME Minister Rob Muldoon's drastic change in profile with a virtual disappearance from public sight results from the belief held in powerful quarters of the National party that his performance was responsible for the party's near defeat at the polls.

This implies that Muldoon is *far from being seen as a trump* card by his party and is now viewed as a potential liability to National. If this is the main lesson to emerge from the election, then Muldoon's future, and very likely that of his party, is bleak indeed. But if this is a superficial reading of the result and Muldoon was an important factor in saving *National* from what otherwise was probable defeat, then the familiar Muldoon style should continue to play a central role in the political scene for some time.

An examination of the developments through 1978 shows that the idea that Muldoon brought his party to near defeat does the man an injustice.

In the first place, this view is based on the assumption that throughout 1978 National was cruising to a victory, but one which *almost became unstuck* during the final campaign period when Muldoon, most certainly, did perform badly.

But rather than conclude that what happened during the campaign was the most decisive factor shaping the eventual election result, we should ask why National was in the position of appearing to be cruising to an easy victory in the first place.

It seems more plausible to believe that the factors which led to National's clear dominance through to November and which saw Labour enter the campaign in a near impossible position had a greater overall bearing on the election result.

In particular, we should ask how National was able to achieve this domination when the circumstances it was confronted with should have left it far behind in public popularity. With drastically falling standards of living and unpopular social and *industrial policies, one would* have thought that National would have been reaping a bitter harvest throughout 1978.

Indeed, the final poll results indicated the potential for this, with the swing from National to Labour and Social Credit combined significantly outweighing even that of the inter-party swing in the 1975 *landslide*.

That Social Credit rather than Labour benefited from this swing is itself an indicator of one of the reasons why National was able to maintain itself well ahead of its principal opponent. Social Credit's dramatic by-election victory in Rangitikei and Beetham's presence in Parliament crucially affected Labour's prospects, as it was robbed of the opportunity to claim that it was the only viable alternative to National.

*If the splitting of the anti-*National vote, (Labour and Social Credit combined gained 56 per cent of the vote in the election to National's 39 per cent) arose from rather fortuitous circumstances for National, the manner in which Muldoon pressed home his attacks against a Labour Party struggling to re-establish *itself as the principal* adversary, was most certainly not.

At a time when the country should have been filled with Labour Party attacks on the emerging mountain of problems faced by National, Muldoon was here, there and everywhere forestalling them and making the credibility of Labour itself the dominant issue.

The third factor behind National's dominance was the inability of Labour to break out of the virtual straightjacket Muldoon had imposed on it. Labour was unable to establish itself as a *credible alternative primarily* because it failed to carry out consistently and effectively an opposition party's role: to oppose, expose and criticise.

It failed to utilise the many opportunities it had to open up issues in the way Muldoon was able to develop in 1975, from the relatively narrow point as overseas borrowing, a general assault on Labour's credibility. Failing in this, Labour attempted to take the initiative through policy proposals, but all too often this meant that it was Labour's actions that were the centre of attention rather than National's.

With National escaping all *too lightly, Labour's initiatives* failed, as the party did not have a sufficient basis of credibility relative to their opponent's from which such hoped for winners as the tax reform programme could be taken seriously.

National, therefore approached the run to elections in a virtually unchallengeable position as every opinion poll throughout the period indicated. National achieved this position at a time when one would have expected *the boot to be on the other foot*, but not for any significant positive reason that could be derived from the performance of the party as a whole.

National achieved this through: good fortune — the splitting of the opposition vote subsequent to the rise of Social Credit; through the weaknesses and mistakes of Labour; and through the efforts made on its behalf by Muldoon.

At the start of the campaign proper, National was streets ahead and *Labour lacked a* substantial base from which it could mount a late victory run. That Labour eventually almost pulled off a miracle, while *spectacular*, was not in itself the main lesson to be derived from the result.

What occurred primarily resulted from the peculiarities of the campaign itself rather than from a basis which could make itself felt in the wider and ongoing nature of politics. To put it bluntly, while Muldoon is a successful political *strategist* and manager at most times, he is a bad campaigner at election time.

The abrasive visible presence he *establishes* with the public to successfully express his views and to squash those of his opponents becomes far too over exposed in the hurly-burly of campaign time, filling the TV screens nightly with blood and guts.

On the other hand, Rowling's low profile expanded nicely to fit the circumstances, with him taking advantage of the opportunities afforded by equal media time to be refamiliarised with voters who *had virtually written him off* and to pleasantly surprise them as a firm yet reasonable man.

This comparison will not *necessarily start a new era in* politics as it required the particular conditions of an election campaign for Rowling to achieve what his party had failed to do previously. It was also bad strategy for National to believe that at election time more of Rob at a louder volume would successfully do the job.

Outside of the peculiarities of a campaign it is a completely different ball game. Labour for the next two and a half years will be back with the *problems* traditionally faced by a party in opposition in its attempts to be heard. Muldoon as Prime Minister will again be in a position to manipulate and dominate political events.

It is therefore ironical that National now seems intent on circumscribing what should remain their chief political weapon — Muldoon.

His was by far the major contribution to setting the scene for the National Party victory. It would be foolish for the party to suppose that the other decisive factor — the upsurge of Social Credit and the weakness of Labour — will necessarily continue. Already, the virtual disappearance of Muldoon from view has led to a news hungry media giving Rowling and his party much more coverage than would otherwise have been accorded.

ROB MULDOON ... chief political weapon.

Rivals respond to performance boosted 4300

by Stephen Bell

RELEASE of the IBM 4300 has brought quick responses from major rivals Itel and Burroughs, and much speculation as to the future direction of the IBM machines.

The 4331 and 4341 brought nothing like the drastic innovations of IBM's last major release, the System-38 (NBR, December 6, 1978). This time the emphasis has been on performance boost and complete 370 compatibility. IBM thus increases its chances of keeping the user with a heavy investment in software developed for his 370.

IBM must still combat the "plug compatible" manufacturers, like Itel, which are already offering 370 compatibility and higher performance for the same cost. Initially, it appears to have done this effectively. Itel's response, frankly, doesn't look so hot.

Users had been expecting a price-performance boost from IBM, but some were still clearly surprised by what they got — up to four times the performance of similarly priced 370s.

Itel, in the person of NZ marketing manager John Nightingale, insists that the 4300 series came, in price performance terms, right where Itel expected it. Its answer — the Advanced System 3 Model 5 — gives, however, about 1.2 times the throughput of the 4341, at a price rather more than 1.2 times IBM's offering. Some users are already branding it as a less than effective competitor.

Itel does though, claim advantages in two areas where IBM has traditionally been considered weak — software costs and delivery times.

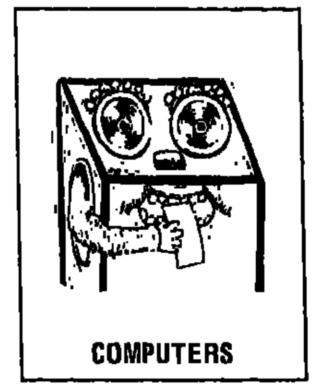
The 4300 release brought with it new software pricing policies, which raise the cost of a workable combination of software. There is now very little left in the category of system control programmes which the user gets free of charge. Itel points out that it supplies much more of the software gratis.

In the delivery area, Itel seems to have a big advantage. Nightingale is talking about 60-day delivery times, while aspiring 4300 users do not expect to get their hardware until late this year, or even next. There may be a competitive edge for Itel in approaching users who have an urgent requirement for an upgrade.

One major difference is in software support. IBM is not supporting its big-machine operating system, MVS on the current 4300s. Itel will provide MVS support. This, said Nightingale, is due largely to the greater power of the AS/3-5. The machine is powerful enough, he contends, to attract users who will require MVS.

Itel may therefore win out with some of the larger users. At the 4331 end though, it has no new machine to meet IBM, and it is unclear whether any are being considered. Nightingale said he had had "no information" yet, with regard to release of further Itel models of this scale.

Burroughs, while not having the advantage of compatibility, seems to have judged the price-performance situation more accurately. Its B2900 (not to be confused with the ICL 2900), on United States prices, is slightly more expensive than the 4331, but claims to make up for it in power. The 3900 roughly parallels the 4341 performance, and is slightly cheaper.



Burroughs, moreover, claims that its new software pricing policies actually decrease the cost of the software. The strategy is to market the software in fixed packages, at a price as little as half that of the equivalent separately-priced items on Burroughs' 800 series.

Most users will obviously be buying software they don't immediately need, but Burroughs hopes thereby to encourage them to expand their system to use the extra programmes.

The 2900 and 3900 — presumably the beginning of a broad-ranging 900 series — incorporate a parallel processing architecture new to Burroughs, and dubbed "micro-modular concurrent" architecture.

Functions such as overall control, memory control, memory access, I/0 and data buffering are farmed out to separate small processors, which operate simultaneously.

In logic chip construction, Burroughs has, for a long time, exceeded IBM's vaunted 704-gate chips. The chips incorporated in the new machines, and some of the earlier models, carry 800 gates. In memory, though, Burroughs is still using 16 Kbit chips, as against IBM's 64 Kbits.

A question which must be in many users' minds following the 4300 release is, where does the series go now? Predictions are that IBM will make its next announcement toward mid-year. This could bring an intermediate model — the 4336 and a very powerful 4346, with double the throughput of the 4341.

But reports are already circulating that IBM's production and support resources may be too stretched to produce the larger machine.

Another focus of attention is the 3880 storage control unit, which is required to attach discs — even old discs — to the 4300 machines. This could have considerably more intelligence than is immediately evident, and may, in the future, emerge as a "back-end" database unit, holding database management software, probably of the relational type already released on the System-38, and handling all database requests in parallel with the main processing.

DP slowdown hits IBM

THE dip in IBM's New Zealand profits for 1977 has, as predicted, proved temporary. Publication of the 1978 financial results earlier this month shows, however, that a slowdown in outright sales of DP equipment is still holding profits down.

Figures for the last three years show an after-tax profit of \$3.3 million, \$2.6 million and \$3.1 million respectively. A recovery from the 1977 dip, but hardly a complete one.

"The decline in profit", financial controller David Bain acknowledged, "is primarily attributable to a lower contribution from DP equipment outright sales in the total revenue." If such outright sales were excluded from the figures, he added, the company's other business would show profits growing faster than costs over the same period.

The falling proportion of outright sales as compared to rental has been worrying IBM worldwide, as evidence by chairman Frank Cary's comments in the 1977 annual report.

Biggest contributing factor, said Bain, was the "position in the product cycle". IBM's 370 machines are now an old line, and with the prospect of the new "Series E" held in front of them for over a year, customers obviously felt less inclined to make a long-term investment in 370 equipment.

This being so, the release of the first members of the "E series", the 4331 and 4341, should allow outright sales figures to pick up. It will be interesting to see how much this is reflected in the 1979 figures.

BASIL LOGAN . . . normalisation and not a disturbing trend

New Zealand managing director Basil Logan added that earlier in the decade, concern about the economic future had precipitated an artificially high level of purchases. The 1977 and 1978 decreases were, to some extent, a normalisation, rather than a disturbing trend. The 1977 dip was largely due to non-recurring expenses.

CD makes surprise win

IN A decision which has surprised contract contenders, the Government has provisionally given the work for its Aviation Fixed Telecommunications Network to Control Data — almost the only major mainframe supplier whose hardware is not already used in a Government installation.

A "letter of committal" has been sent to CD, said Transport Ministry spokesmen, but order details must still be ironed out. It is clear, though, that CD will be supplying its own equipment, not used IBM machines, like those supplied to Databank..

On the face of it, used IBM machines would have been a less controversial choice, since the network will interface with the IBM 370-168 at the Government's Cumberland computer centre.

In this interface lies the real interest of the AFTN project. The State Services Commission has made no secret of the fact that AFTN will be used as a testbed for the implementation of a major network centred on the Cumberland machines, when the need for such a network becomes evident.

CD is now obviously well-placed to get the big network contract.

The choice of supplier is a surprising one, not well established in this country, and does not make terminals. Most observers were expecting a complete package deal for the network. CD will supply the communications processors, but the terminals will be the subject of a separate tender.

Fuel crisis pushes Government back into providing incentives to boost oil search

Christchurch Correspondent

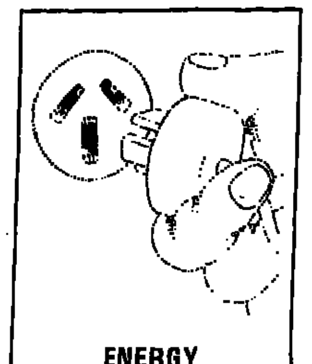
IT HAS become painfully obvious that this country's petrol pumps are utterly dependent on foreign supplies of crude oil reaching the Marsden Point refinery. The new oil crisis has struck New Zealand more severely than any other member of the International Energy Agency...because we have no oil-fields of any size.

At least none so far discovered. Condensate from such fields as Kapuni and, from mid-year, Maui will help to ease the strain but in terms of sheer dependency on foreign supplies now stretched to the limit, we are tragically vulnerable.

After the oil crisis brought by the 1973 quadrupling of oil prices by members of the Organisation of Petroleum Exporting Countries there seemed to be a curious mixture of policies here.

While trying to offset the impact wreaked by the OPEC cartel there was also a tendency to emulate the oil producing nations.

Around the world it became fashionable to act with suspicion of all traditional sources and conduits of crude oil including the international oil companies which supply



ENERGY

the West. The State intruded into the area of exploration, anxious to stake out the people's inherent right to the best possible participation in any discovery of a suddenly precious commodity. OPEC awakened in the West a new sense of ownership of natural resources.

The door could never be as wide open as it was in 1970 when the first new public company for oil exploration in many years — L and M Oil NZ Ltd — was the darling of the sharemarket.

About that time, the American explorer Hunt International Petroleum Company was undertaking a vast seismic survey of the southern seas below Invercargill having arrived here with an enviable record of finding oil-fields after prodigious research.

Hunt was to become increasingly nervous about Government's persistent alteration of the terms under which it had commenced its New Zealand exploration programme and eventually the severity of tax stopped the Sea Hunt consortium from further financial involvement in the highly prospective Great South Basin.

The new State company Petrocorp NZ completed the programme and Hunt itself finished up two months ago with their resident New Zealand manager, John Tatum, a straight-talking Texan, making it clear that Hunt were withdrawing ... with their rig, the Penrod 74, which had been specifically built in Singapore for the search.

"We spent $50 million drilling here without achieving what we set out to achieve. We were frustrated in these efforts by Government action."

Penrod 74 is now working in the region north of Australia.

Hunt had worked in New Zealand under six ministers responsible for exploration. The newest incumbent Bill Birch hasn't lost hope of seeing a Sea Hunt return. He points out that the Hunt licences for the southern offshore zone remain intact and that forthcoming legislation fixing the terms for exploration will offer special incentives for work in deep water.

The Government believes the Great South Basin has hydrocarbon potential and Birch is clearly keen to get work resume there with new laws containing provisions offsetting the difficulty and expense involved in drilling at the frontiers of oil technology.

For oil explorers facing colossal daily operating costs, especially where giant semi-submersible rigs are concerned, the wait for the promised exploration Bill has been too long.

Back in June 1978 Energy Minister George Gair said he was hopeful the signing by French company Aquitaine of terms for the North Tasman I well would herald further exploration agreements.

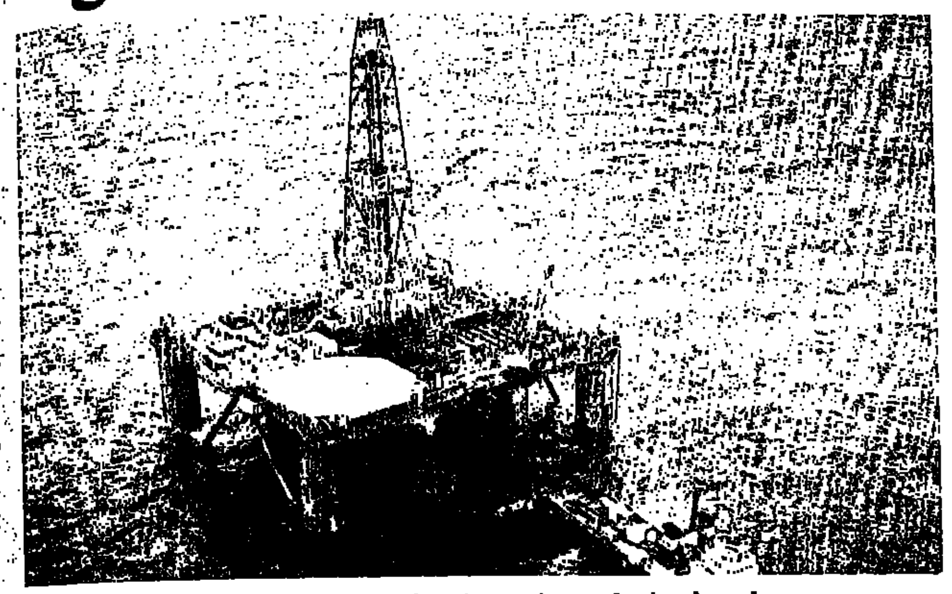
Gair said that the taxation system meant the petroleum mining companies would pay tax on the same basis and at the same company tax rate as all other companies in New Zealand with some special incentives built in to encourage investment in exploration. He even hoped legislation could be introduced into Parliament in late 1978.

North Tasman I was the [illegible] of the offshore oil search ... perhaps this decade. More than tax has been at issue between oil explorers and the Government's negotiators and progress has been pitifully slow. Other issues such as gas pricing, participation rights, differing incentives for gas than for oil, decision making...a raft of these issues has yet to be lashed together strongly enough to enable any rig to float back into New Zealand waters.

Recent offshore wells have seen the State pay 40 per cent of exploration costs — with the taxpayer as ultimate provider of such risk capital — in return for a 51 per cent equity in any production. Given the new awareness of mineral wealth such an equity is hardly unreasonable in the Government's view. It is the extent to which Government thinks its 51 per cent gives it a "say" in other respects that has partly slowed negotiations.

If a commercial oil-field was found and was flowing oil today who would decide the rate of "lifting" to meet, say, a supply crisis such as that now being experienced? The Government or the private partners, who might claim to have more expertise on down-hole effects of excessive production rates? Isn't it logical that any prospecting partner, from the private sector would want to know the answer to these and other crucial questions before a cent is spent on drilling?

Our stalled oil search could not be more salient than now when the absence of Iran's normal five to six million barrels a day have put a strain on the West. Longtime Iranian consortium member British Petroleum has announced that it is unable to fulfil 45 per cent of its contracts and Shell has declared a similar "force majeure" of 15 per cent. Third party orders have been the first to suffer and the companies have been attempting to avoid the exorbitant prices of the "spot market".



DRILLING RIGS . . . New Zealand's alternative to foreign dependence.

BP's bid for a share of the trickle of Iranian oil which has started to flow from the revolutionary Islamic-controlled Targ · Island terminal was rejected by Iran as too low in early March. The company usually supplies about one-third of the New Zealand requirement of 100,000 barrels a day.

Ironically both BP and Shell are partners in the proposed exploration programme at the "Structure S" location far offshore Kawhia, north of the Maui natural gas field. BP was impressed enough to change its mind about seeking a share of the action at "Structure S" where it is believed a new field close to Auckland is worth looking for...if the terms are satisfactory. Other partners will be Shell US and Todd Petroleum.

It would be the first well in which the Houston-based Shell subsidiary has participated here.

Todd Petroleum has been a longstanding partner in wells drilled by Shell-BP-Todd on the West Coast and BP-Shell-Todd on the East Coast. It has adopted a firm attitude to what it considers sometimes excessive State interference and the Wellington-based private firm is a key participant in any oil talks.

There have been very few sessions in recent months worth describing as "talks". State officials appear completely preoccupied with the Iranian crisis.

Bill Birch: "I want to get the rules in place as quickly as possible. They will be acceptable and compare favourably with rules overseas.

"We will get a framework in which they can work."

The Minister admits he has been directing his own energy to the question of alternative liquid fuels which he sees as likely to have a more certain outcome than speculative oil exploration. He is justifiably optimistic about the prospect of Maui natural gas providing substitutes for oil. "Add the potential of lignite coal and work on bio-mass and energy farming and you begin to see an exciting picture of future liquid fuel exports."

Yet he concedes it would be "very advantageous" for an oil strike to be made.

Hopes for that are not completely non-existent. If agreement can be reached on terms for "Structure S" — which may become eligible for new deep water incentives — a rig could return next summer.

Aquitaine — the operators for the licence area in which L and M Oil participates — held a meeting at North Sydney last Friday to assess the results from North Tasman I.

North Tasman I was considered one of the top prospects for an oil strike. It was drilled in 86 metres of water just across the fence from the Maui 4 well which found 600b/d of oil and wet gas in 1970. Maui 4 was not large enough to be commercial but North Tasman was believed to be an extension of the Maui 4 structure and potentially much bigger. A licence for one year was taken out for half the former Tasman Bay licence.

On the 3540 sq km licence area a royalty rate of 12½ per cent on any production was set. This was a 2½ per cent lift on the old offshore rate and may not be acceptable to other explorers who do not possess Aquitaine's French tax structure.

L & M had a direct stake for the first time in a Tasman Bay consortium, contributing 7½ per cent to the cost of North Tasman I. In return it would have received a 3.75 per cent interest in any commercial development. This participation was in addition to retention of an over-riding royalty interest of 5 per cent by Tasman Petroleum. L & M has a 25 per cent holding in Tasman and thus received a potential 1.25 per cent royalty interest.

That was lower than the benefits available to L. & M in earlier wells but it was based on parity with world oil prices and greater than was the case in ultimate return.

Other partners in North Tasman were Petrocorp (51 per cent) Home Oil Canada, Odeco US, Murphy US and Beach Australia.

L & M had already been involved in Cook I, Fresnes I, Tasman I and Surville I. North Tasman I was also dry.

Since the interest in that well, which saw the sharemarket price of L & M spurt to 60-70c, the share price has ebbed to below 30c.

Chances of a revival hinge on future drilling. Aquitaine is known to be well involved in the flourishing Australian oil search with work underway in the Timor Sea, Cooper Basin and Bonaparte Gulf. Technical data from North Tasman before last week's operator's meeting is only part of the key...the attitude of New Zealand officials will be important.

Partners in another offshore well proposed by another listed explorer here, NZ Petroleum Company, have yet to be revealed. Longstanding partner Triton Oil of Dallas will be one participant.

The proposed well is about 50 kilometres off the coast of South Westland in the vicinity of Harihari. Onshore work suggests that a prospective oilfield may lie out to sea and considerable sums have been spent on offshore preparation.

NZ Petroleum has a long history of involvement in the oil search with 15 onshore oil wells.

New Zealand's only oil well this year has been the Toko I onshore well being drilled by Petrocorp.

L & M has long hoped for an opportunity to apply for new licences in the Taranaki region via its interest in Radius Oil but the company was disturbed by what it sees as the State's approval for Petrocorp's widespread licences. Petrocorp were viewed in Government quarters as filling a vacuum the private explorers were loath to occupy and in keeping exploration going.

The new oil crisis should logically shift the balance back towards provision of incentives to get the oil search really going.

Australia, for all its 70 per cent self-sufficiency in oil, has stepped up its oil search in its awareness that by 1985 it will only be 50 per cent self-sufficient on current reserves. March has witnessed the spudding in of the Esso-BHP programme on the highly prospective Exmouth Plateau offshore West Australia. An impressive 85 wells are scheduled to be drilled in Australia this year in one of the most intense periods of exploration this decade.

New Zealand oilmen believe the altered circumstances of the world supply situation should force Wellington to wipe the slate clean and start a serious effort to find indigenous oil resources.

When New York-based International Political Surveys Inc this month supplied its subscribers with an 18 month projection of political economic and social risks in 60 countries it describes New Zealand as one of the safest countries in the world for foreign investment.

That would have brought a cynical smile in the offices of many oilmen.

But if world oil prices start leapfrogging toward "spot market" levels of $20-$22 a barrel, some of the licence areas around New Zealand begin to look more economic to develop and a realistic reconciliation of State and private explorer may just be salvageable.